THE FUNCTION OF STATE RAILWAYS IN INDIAN NATIONAL ECONOMY

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FOREWORD BY SIR C. P. RAMASWAMI AIYAR, K.C.S.I., K.C.I.E., LL.D., DEWAN OF TRAVANCORE, VICE-CHANCELLOR, TRAVANCORE UNIVERSITY.

Mr. Ramanujam's book on "The Function of State Railways in Indian National Economy" purports to be a comparative study of the origin and growth of the railway systems in India and elsewhere, outlines the evolution of State policy and contains a useful summary of the function of State Railways. The author has laid under contribution the main authorities on the subject and has further bestowed considerable thought on many aspects of the problem.

The labours of the Departmental Committee in England on Railway Agreements and Amalgamation and the progress towards closer co-operation amongst the railways have been sketched in detail and the impact of the last war on the railway services profitably analysed. The author has pointed out that the war of 1914-18 led, in America and Great Britain, to a very widespread control of the railway system by the Governments though with the object

of a return to private ownership after the war. The changes that took place in the Indian policy towards railways and especially in respect of the interdependence of the general revenues and the railway revenues have been described with special reference to the Acworth Report and the Indian authorities. Emphasis has been laid on the defects of the system prevalent in India including the small expenditure on renewals and the treatment as net revenue of what should have been treated as working expenses. After the end of the last war, although in Great Britain the railway system returned to private ownership, the Railways Act of 1921 gave very extensive powers in respect of the regulation of railways, railway charges and rates, conditions of wages and so forth, the British Act following in these respects the Transportation Act of America of 1921 which established an Inter-State Commerce Commission.

The author has outlined the developments of Indian Railway organization from the time when in 1924 the Indian Legislative Assembly separated the railway budget from the general budget. It is well-known that, in the first few years, satisfactory financial results were achieved and the railways earned enough not only to meet the interest on their capital charges but to make suitable provision for deprecia-

tion, to contribute to the reserve fund and nevertheless substantially to help the general tax-payer. But after the depression of 1929-30, a different state of things came into existence.

The accounts during the period from 1929 have been analysed under various headings until the period when in 1937 a practical moratorium was declared. The general reader must be indebted to the author for the study of the salient features of the Railway development in recent years both in England and in America. The very exhaustive scrutiny of the results of the American and German systems is instructive. The author's thesis is that important public utilities have, under present conditions, to be public monopolies so as to serve the interests of public convenience and necessity not only in regard to rates but from many other points of view.

Trouble has been taken to deal with the efforts made in France and elsewhere to nationalise the railway system, and I was specially interested to read what has been stated by the Co-ordinator of the American railway system, Commissioner J. E. Eastman, who has arrived at the conclusion after considerable research that while public ownership and operation have their evils yet, on the whole from the general point of view, they are outweighed by the

advantages. That Government ownership and Government control are really not very different from each other is also shown. Indian opinion is generally in favour of State ownership and that opinion will be strengthened by a perusal of these pages.

Chapter V of this treatise is, to my mind, the most interesting in so far as it describes the revolution that has been produced by the internal combustion engine and the consequent and inevitable competition between road and rail transport. All railways took a long time to realise what was happening and, in general, their policies were short-sighted. But many events including shortage of steel and other material, the commandeering of railway workshops and the resultant shortage of rolling stock and the simultaneous shortage of rubber and all component elements of the motor vehicle have made it incumbent on the management of railway systems and traffic systems alike to pool their resources to supplement each other's activities. Even in England it was only after 1933 that it was recognised that it is the duty of the State to hold the balance even between road and railway. The Road and Railway Traffic Act of 1933 is felt not to go far enough and had a mixed reception in England. The main topics to be considered so far as India is concerned may be stated to be (*a*) the speedy nationalisation of rail-

ways, (*b*) definite and co-ordinated control over the transport system of the country as a whole including road, canal and backwater systems, and (*c*) the evolution of a policy by which cut-throat competition would be avoided and freights and rates would be so adjusted as to facilitate the paramount interests of internal, at least as much as external, trade and the encouragement of Indian industry and manufactures. None of these points have been missed in this volume.

It is with no small pleasure that I welcome this publication as a contribution to the study of a generally neglected but increasingly important subject.

(*Sd.*) C. P. Ramaswami Aiyar.

PREFACE.

The full title of this monograph should really be "Some of the Main Aspects of the Function of State Railways in Indian National Economy". This has three chief aspects; firstly, this is a *historical* study outlining the origin and evolution of Indian railways and railway policies from the very earliest times to the years immediately preceding the present world war. Such historical works are not uncommon in the bibliography on the subject. Secondly, this is a *comparative* study, attempting to show, at every stage, how countries like Britain, America, Germany and France tackled problems similar to those that arose in India. Such comparative approach is, one notices, rarer than the merely historical approach, among the existing studies on this subject. Thirdly, besides bringing to bear these two points of view, effort has been made to *critically* examine in a purely objective, scientific and constructive manner, the good and evil that India experienced as a result of the policies that the Government of India and the Secretary of State adopted from time to time.

It has been difficult to have access to a liberal supply of primary and secondary sources so far as railway policies abroad are concerned. The Indian sources have been, however, canvassed fairly fully,

and, to *everyone* of the sources used reference has been made in the foot-notes and the bibliography. Particularly useful for the earlier period was that splendid work by Horace Bell on Railway Policy in India. Fresh points of view have emerged as a result of the exhaustive scrutiny of the interpretation of the Theory of Fair Return and the Taxation of Railways, topics which have been examined from this angle in this monograph, for the first time among the Indian works on the subject. It is my hope and trust that these new tracks will stimulate further exploration by fellow-researchers. I am myself most keenly looking forward to take up the further study of the topic in the last chapter of this monograph, which is referred to by the distinguished author of the Foreword as "the most interesting of this treatise;" for, the elimination of unhealthy competition between and the establishment of a rational co-ordination among the different forms of transport is certain to have a very high priority in any post-war reconstruction programme, and will require the closest attention of all students of the subject.

May I thank the Travancore University for the grant that they have made in aid of this publication.

I am deeply indebted to the eminent Vice-Chancellor of the Travancore University, Sir C. P. Ramaswami Aiyar, K.C.S.I., K.C.I.E., for the Foreword that he has so kindly contributed.

Madras,
5—5—1944.

T. V. RAMANUJAM.

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CHAPTER I.

EARLIER STATE POLICY TOWARDS RAILWAYS AND ITS RESULTS.

SECTION 1—THE NATURE OF BEGINNINGS HERE AND ELSEWHERE.

1. *Special features of Indian Railway Origin.* —It was ninety-five years ago, in 1849, that the first sod of an Indian railway was turned. The earliest proposals for constructing railways in India were made five years previous to this. Just as in the case of co-operation and several other movements in India, so also in respect of railway communication, the initiative came from the top, the Government, and not from below, the people. The first proposals for railway construction in India were submitted in 1844 to the East India Company in England by a British company headed by Mr. R. M. Stephenson, who later became Chief Engineer of the East Indian

Railway, one of the two earliest Railway Companies of India (*a*). Unlike Britain, the United States of America, Germany and several other advanced countries of the world, railway construction in India was not the result of indigenous enterprise or capital. No Industrial Revolution had preceded the railways. Conditions of demand for railway service, on the part of the Indian peoples, traders and industrialists, were so uncertain that even the enterprising promoters of railway companies in Britain insisted on a guarantee of interest from the Government. The Government did not, in that period, regard the railways as commercial concerns which should be self-supporting. Lord Dalhousie, for instance, who was largely responsible for giving the real fillip to railway construction in India, said:—"After reading everything that I have seen written on the subject, and conversing, since I have been in India, with everybody who was able to give an opinion worth having on the question of railways in India, I have come to the conclusion that no one can safely say whether railways in this country will pay or not" (*b*). In another Minute written in 1853 he expressed the hope that the Indian railways would in the end be so far remunerative as to relieve the State of the onus of the guarantee. Should it prove otherwise, he maintained that a payment of a part

(*a*) Report on Indian Railways for 1923-1924, the Government of India, p. 73 *et seq.*

(*b*) Lord Dalhousie's Minute of 20th April, 1853, quoted by Horace Bell—Railway Policy in India, p. 12.

of it might be "cheerfully borne" in view of the indirect advantages to be derived from railway transport (*c*). Among these were the increased facilities they afforded in the general administration of the country and in the greater mobility they gave to military forces. From the earliest times, therefore, a large mileage of unproductive lines was constructed for military and famine protective reasons (*d*). The line taken by the Government of India in the earlier days was that in the initial stages of railway development in a country such as India there are many arguments for paying more attention to the development of communications than to making the railways pay (*e*).

2. *Those of Britain.*—Britain, which is the birth place of steam railways, and, in fact, of all railways, is the one major country in the world which owes its railways entirely to private enterprise (*f*). It is true that the railways of the United States of America are also owned and operated by private corporations. But there is the difference

(*c*) *Ibid.*, p. 13.

(*d*) *Ibid.*, p. 245—Much stress on the importance of Indian railways for military purposes was laid in Dalhousie's Minute, *op. cit.*

(*e*) Sir Basil Blackett in the Indian Legislative Assembly, Reports, pp. 3635-37, September 17, 1924.

(*f*) There are many who think that railways were born when the Stockton and Darlington line was opened in 1825; however, Mr. Dendy Marshall takes nearly 250 pages to describe the experiments and results that mark the pre-locomotive-engine railway. History of British Railways to 1830—by C. F. Dendy Marshall, Oxford.

that while the pioneers of American railway enterprise were given by the State free grants of the necessary lands, the British companies had to buy their lands from extortionate owners at unconscionably high prices. This accounts, in part, for the fact that the British railways were among the most highly capitalised in the world (*g*). At the close of 1843, ten years before the first Indian railway was opened, about 2050 miles of railway had been constructed and opened. The money for the construction of all these had, up till then, been chiefly found by groups of merchants in Liverpool and other large cities, who had hoped to derive benefit to their general business from the increased facilities of inter-communication, as well as a good return for their investment in the railway itself (*h*). Another feature of the British railways that distinguishes them from Indian railways is that they were begun towards the end of that very important stage in British economic history that is compendiously described as the "industrial revolution." It may be held that it is a somewhat moot point as to which was cause and which was effect. However, coming later than many of those inventions which really revolutionised industrial production, it is apt to con-

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(*g*) Cost of construction per mile	—Gr. Britain	..	£56,487.
,, ,, ,,	—Germany	..	£23,919.
,, ,, ,,	—France	..	£29,804.
,, ,, ,,	—Italy	..	£26,008.

International Railway Congress Bulletin, September, 1913.

(*h*) Early British Railways (1800-1844), H. G. Lewin (London), p. 139.

clude that the railways were the result rather than the cause, in the first instance, of that movement (*i*). A third difference that strikes one when comparing the beginnings of railways in India and of those in Britain is the absence in the latter country of what are called "strategic" railways. Largely perhaps owing to its insular position, there were no important military requirements compelling the construction of railways, which considering the traffic they would draw, would never pay (*j*). Further the British railways present a striking contrast to those of India in the opposition they encountered, in their earlier years, from rival transport agencies, namely, the canal companies and coach proprietors; often, this resistance had to be overcome by liberal bribes or by the purchase of their stock at ridiculously high prices. Even the trustees of roads maintained by income from toll-gates or turnpikes had, in many instances, to be compensated by the railway companies. To take one example: in 1838 the Edinburgh and Glasgow Railway Company had to pay £25,000

(*i*) C.E.R. Sherrington—The Economics of Rail Transport in Gr. Britain, Vol. II, p. 223.

Note that the earliest British locomotive-engine railway, the Stockton-Darlington, was opened in 1825; whereas Kay's flying shuttle in 1733, Hargreaves' spinning—jenny in 1764, Arkwright's water-frame in 1770, and Cartwright's power-loom in 1786.

"The steam railway was a great stimulus to still further expansion—but it was itself a product of a general release of energy and enterprise already in progress." H. G. Wells, Experiment in Autobiography, Vol. I, 1934.

(*j*) C. E. R. Sherrington, *op. cit.,* Vol. II, pp. 224-25.

to the various road trustees between the two cities (*k*).

3. *Those of American Railways.*—The American railways are, like those of Britain, owned and operated by joint-stock companies. The earlier ones were given land for the track freely by the Government. Besides, they gave the railway companies large acres of land on either side of the railway line so that the companies might sell them to settlers. All this encouragement was deemed to be necessary because they were taking a risk in investing large sums of capital in comparatively undeveloped areas (*l*). Large areas of territory were brought under cultivation through immigration; and such an immigration was made possible only by an adequate system of railway communications. It will be noticed in the section on the contracts made by the Government of India with the early private railway companies that they were very much more generous in their terms (*m*). And this was so not because it was expected to bring large areas of fresh land under cultivation, but for very different reasons (*n*).

4. *Those of Continental Railways.*—The attitude of the States in the continent of Europe towards their railways was wholly different from that

(*k*) K. G. Fenelon—Railway Economics (London), p. 7.

(*l*) Kirkaldy and Evans—The History and Economics of Transport (London), p. 165.

(*m*) *Infra*, sub-sections 5 and 6.

(*n*) *Supra*, sub-section 1—Administrative and military reasons.

of Britain and the United States of America. The latter was a negative or rather a passive policy. The former was something positive (*o*). In most of the European countries it was either State enterprise or private enterprise heavily subsidised and minutely controlled by the State. In France, for instance, the Government guaranteed the payment of interest on a substantial part of railway capital; the Government provided the land, constructed the permanent way, built stations, and leased them all to the companies; all that remained for the companies was to lay the rails and provide the rolling stock (*p*). This was necessary because France was a country containing only a few big towns and large centres of population; and there were many routes which were clearly expected to prove unprofitable. So the Government wisely made a distinction between these routes, called the "new system", and the earlier and more profitable ones called the "old system"; and laid down different terms for the companies working them (*q*). While exercising a very close supervision over all aspects of railway operation, the French State, by granting concessions to private companies, had secured the construction, as far as possible by private capital, of a complete system of railways (*r*). In Germany the Government's attitude was even more "positive".

(*o*) For a detailed discussion of these two attitudes, see E. Cleveland-Stevens—English Railways (London), p. 61.

(*p*) Kirkaldy and Evans, *op. cit.*, p. 163.

(*q*) *Infra*, sub-section (8).

(*r*) The French Railways—Lord Monkswell (London), pp. 9-17.

Prior to the first world-war, each State of the German Empire had its own railway system. The States used them not only for increasing their military efficiency but also for implementing their national fiscal policy, especially by forbidding low import rates, which may have the effect of neutralising their protective duties. They were also, quite often, compelled to grant low export rates (*s*). Mr. Winston Churchill before the Dundee Chamber of Commerce in December, 1918, said "railways in private hands must be used for immediate direct profit; but it might pay the State to run railways at a loss to develop industries and agriculture" (*t*).

Germany was the one important country which, in the 19th century and later, systematically and deliberately put this view into practice (*u*). Except in the general sense that improved and new means of communication would naturally aid the development of agriculture and industries, it was not the policy of the Government of India, to use the railway system for stimulating the exports of the country or checking the imports. Losses in railway management were not due to the adoption of any such policy (*v*).

(*s*) A full description is given by E. A. Pratt in "Railways and Railway Rates" (London).

(*t*) The Modern Transport (London)—January 29, 1938, p. 3.

(*u*) *Infra.* Chapter II. German State railways were utilised to aid national industries no doubt; but not necessarily and not always by subsidising the railways out of general revenues.

(*v*) *Supra,* sub-section (1), and Statistical Table I.

SECTION 2—DETAILS AND EFFECTS OF EARLY CONTRACTS.

5. *Guarantee and other terms.*—Indian railway history may be said to begin in 1844, for the first proposals were made in that year. Actual construction began five years later. The first lines were opened in 1853; and by that year Lord Dalhousie in his famous Minute had approved of the need for and the desirability of giving definite sanction and stimulus to the construction of trunk lines by "guaranteed companies" incorporated in England (*w*). The earliest contracts with the "guaranteed companies" were those between the Secretary of State for India and The East Indian Railway Company and the Great Indian Peninsula Railway Company, dated August, 1849. These two were at once the earliest and the most important among the "guaranteed companies", and the following were the main conditions of the contracts with them:—

(*i*) Land was provided by the Government free of cost, for all works, on a lease for 99 years.

(*ii*) Interest at 5 per cent. per annum to be paid to the Company, by the Government, on capital paid into the Treasury, for 99 years.

(*iii*) Gross receipts to be paid into Government Treasury.

(*iv*) A reserve fund to be set up for making good deterioration; the first charge on the nett

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(*w*) Report on Railways in India—by J. Danvers Esq., Government Director of Indian Railway Companies, 1869—70, p. 100.

profits of the line to be repayment of interest to Government. The accumulated interest debt was to bear simple interest at the rate of 5 per cent. per annum; and when the profits were larger than the amount payable on the guarantee, one-half of such excess was to be credited to the Company; and the other half was to be applied firstly towards payment of interest on the debt and then towards the liquidation of the debt itself. When the debt and interest had been paid off, the Company was to take the whole of the surplus nett receipts.

(*v*) The Government had the option of buying the lines within six months after the first 25 years or first 50 years, the sum to be paid to the Company being the full amount of the value of capital stock and all shares, calculated on the mean market value in London during the preceding three years.

(*vi*) At the expiration of 99 years, the land and works to become the property of Government, the rolling stock and other movable property being paid for at a fair value.

(*vii*) It was open to the Company to surrender the line after completion, on giving six months' notice, when the Government would pay back the capital outlay.

(*viii*) Instead of repaying capital directly the Government was empowered to commute this into annuities, for the remainder of the term of 99 years, if the purchase was made earlier.

(*ix*) Full control and superintendence was reserved for the Government over the Company's servants, and free access was to be had to all books, papers and accounts.

(*x*) An unpaid Government Director with power to veto was to be appointed.

(*xi*) The Government reserved power to determine the speed, number and times of running of trains, to approve the fares leviable, and to ask for a reduction of these when the line paid over 10 per cent.

(*xii*) The expenditure of the Company to be laid before the Government for approval and sanction.

(*xiii*) The Government would fix the route to be followed and had power to change or extend it.

(*xiv*) Free carriage of mails and postal servants, and carriage of goods, troops and military stores at reduced rates (*x*).

It was under this system of guarantee and control that the great trunk lines of India were constructed, and this system held the field till 1869. At first there were only two companies, but within a decade several others were formed and by 1869 there were as many as eleven companies (*y*). The terms of

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(*x*) These and other terms of the earliest contracts are mentioned in Report on Indian Railways for 1923-24 by the Railway Board, pp. 73-75; and Horace Bell, *op. cit.*, pp. 60-62.

(*y*) Report by J. Danvers, *op. cit.*, p. 6.

the contracts with these companies were essentially the same as with the East Indian Railway Company pointed out above; only, the rate of the guaranteed interest on the capital differed in the various cases, 5, 4|¾, and 4|½ per cent. according to the market rates prevailing when the various contracts were made (*z*).

6. *How onerous they were.*—This system which was in full swing between 1853 and 1869 was, as later events clearly proved, far too onerous from the point of view of the Indian tax-payer. The evils inherent in this system of 'gurantee and control' became apparent by the year 1869 when Lord Lawrence recorded a most lucid Minute in favour of abandoning this policy and urging the adoption of direct State construction (*a*). There was absolutely no risk to the share-holders, because the interest was guaranteed by the Government. They had their five per cent. in the case of two companies, and slightly less in the case of others, whatever happened. As early as April, 1, 1861, it was pointed out by Mr. S. Laing, the Finance Member of the Viceroy's Council that the guaranteed system was proving uneconomic from the point of view of the Government. The Management was non-resident, and the data as to primary cost and likely traffic being so uncertain, the companies looked almost exclusively to the guarantee. The element of truth in the belief that in

(*z*) Report by the Railway Board, 1923-24, *op. cit.*, p. 74.

(*a*) Minute, dated 9—1—1869, quoted by Horace Bell, *op. cit.*, p. 76, *et seq.* and Report by J. Danvers, *op. cit.*, p. 4.

commercial matters company management must be held to be much more efficient and economical than that of a government vanished entirely when the real company was 6000 miles away and when the guarantee was absolute (*b*). There was no incentive to minutely examine the productivity of the outlay on the works. Table number one below shows how year after year the Government had to pay, under the terms of these contracts, heavy sums of money to the companies. The whole profit, under these contracts, would go to the companies, and the whole loss to the Government (*c*). *Looking at these contracts, and the heavy expenses the Government had to incur, from this distance of time and in comparison with experience in other countries like Spain and Brazil, it is natural to feel that the Secretary of State had been far too liberal in his terms to the railway companies* (*d*). At that time, however, it was felt that this was the only way of attracting British capital and enterprise (*e*). It is not possible, and it is certainly of no immediate or practical utility, to prove that they were wrong in coming to that conclusion. In a historical and comparative study, however, it may be necessary to briefly mention the reasonable criticisms that were levelled against the experiment. The fundamental objection

(*b*) Horace Bell, *op. cit.*, pp. 65-67.

(*c*) Lord Lawrence's Minute, *op. cit.*, also clause (iv) of the terms, *supra*.

(*d*) *Infra*, sub-sections (7) and (8).

(*e*) Lord Dalhousie's Minute of 1853, *op. cit.*

to absolute guarantees, in connection with railways, was that they tended to weaken the ordinary motives to efficient management and superintendence; and some disclosures, in 1867, as to the state of the works on the Great Indian Peninsula Line strengthened the apprehensions on such grounds (*f*). After the first few years of experience the Government of India themselves began to doubt whether their power of control over the guaranteed companies secured the greatest possible economy in construction (*g*). To repeat, it was rightly urged that the companies had only to supply the capital and to *receive* their interest from the Government, whatever be the outlay and whatever be the result of their undertakings (*h*). This led to the serious evil of extravagantly-constructed lines; it was pointed out that the average cost of Indian railways, single line, had up to 1869 reached about Rs. 1,70,000 per mile, while their average income was about 3 per cent., leaving the remaining 2 per cent. to be borne by the tax-payer. And this happened in spite of the fact that the early railways naturally occupied the best fields for such enterprise, traversing very populous and rich regions (*i*). A further reason why this

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(*f*) Referred to by Sir Stafford Northcote, Secretary of State for India, in Despatch number 125, dated 3—12—1867 and quoted by Horace Bell, *op. cit.*, p. 92.

(*g*) Railway Board Report for 1923-24, *op. cit.*, p. 75.

(*h*) The Government of India's Despatch No. 28, dated 22—3—1869 quoted by Horace Bell, *op. cit.*, p. 97, *et seq.*

(*i*) The Government of India's Despatch No. 24 dated 15—3—1869 quoted at length by Horace Bell, *op. cit.*, p. 95, *et. seq.*

system led to unnecessarily heavy expense was in the multiplicity of agencies it involved. Within six years after the opening of the first line there had been formed, under guarantee of interest, eight companies for the construction of about 5000 miles of railway. So many different agencies naturally led to heavier expense and more complex machinery than if the Government themselves had taken the whole initiative and working. Further, the inevitable competition among these different companies for materials and ships naturally tended to raise the prices and the freight charges (*j*).

It is interesting to notice column 8 of Table number 1 which shows the operating ratio of the Indian railways in those early years; for it reveals how little influence it has on the power of the railways to earn profits on the capital investments. The operating ratio may be low and favourable; yet the volume of traffic may be so small as to prevent the accumulation of sufficient revenue to cover more than the interest on fixed charges. "Hence with an over-capitalised line even an operating ratio as low as 60 per cent. may not necessarily bring in a dividend" (*m*). It appears that this was the situation of the Indian railways in the first period of their development.

(*j*) A full discussion of this result of company operation can be seen in Horace Bell, *op. cit.*, pp. 68-69.

(*m*) C. E. R. Sherrington, Vol. II, *op. cit.*, p. 49.

TABLE No. 1.

Showing the development of Indian Railways till 1869 when a new orientation in railway policy was attempted.

Year.	Mileage open.	Capital outlay.	Gross earnings.	Working expenses.	Net earnings.	Loss or gain to the State.	% of 5 to 4	% of 6 to 3
1	2	3	4	5	6	7	8	9
1858	427	160.000	3,382	1,563	1,819	— 6,500	46·22	1·14
1859	625	225,000	5,724	2,774	2,950	—11,000	48·46	1·31
1860	838	266,600	6,667	3,708	2,959	—12,000	55·61	1·11
1861	1,587	340,000	9,863	5,809	4,054	—15,100	58·90	1·19
1862	2,333	480,000	13,445	8,032	5,413	—16,700	59·74	1·13
1863	2,507	530.000	22,047	13,304	8,743	—18,400	60·34	1·65
1864	2,958	580,000	28,589	17,085	11,504	—19,300	59·76	1·98
1865	3,363	630 000	42,584	22,427	20,157	— 2,400	52·43	3·20
1866	3,563	700 000	49,191	25,938	23,253	— 9,400	52·73	3·32
1867	3,929	800,000	54,454	29,376	25,078	—16,500	53·95	3·13
1868	4,008	840,000	56,709	30,746	25,963	—19,300	54 22	3·09
1869	4,255	890,000	61,310	31,174	27,136	—16,200	55·74	3·05

1. The above figures are in Thousands of Rupees.
2. Compiled from Government of India's Annual Reports on Railways and The Indian Finance Year Book, 1932.

7. *Experience elsewhere.*—It is worth while to briefly notice the experience of other countries where, as in India, the Government did not think it advisable to construct and operate railways themselves. In Brazil, the Government, in granting concessions to private companies, originally guaranteed a percentage—generally from 5 to 7 per cent.—on a fixed capital outlay. But the system proved a costly failure in that country as well. For, though some of the lines did so well as to make no demands on the guarantee of the Government, "many were constructed with the apparent intention of living upon it entirely" (*n*). Some of the railways did not even earn their working expenses; but more of them went on from year to year, just covering their expenses, and earning nothing more to repay to the Government the advances under the guarantee. It appears that the very terms of these guarantees indirectly created an unfortunate conflict of interest between the Government and the Companies; in the case of some railways working expenses were made to bear as much for maintenance and renewals as the Government engineers could be induced to sanction (*o*). Gradually, the Government replaced the guarantee system by a scheme of State ownership.

In Spain, to take another instance, the Government emphatically decided against the guarantee

(*n*) Board of Trade Return—"Railways (Foreign countries and possessions)", quoted by E. A. Pratt: Railways and Nationalisation, p. 47.

(*o*) The Railway Gazette (London) December 12, 1919.

system, and preferred a scheme of subventions to the companies. According to the Railway Law of November 23, 1877, a complete plan of a full railway system for Spain was laid down. The Law provided for a railway system which connected all the main centres of the country, arranged for the fixing of maximum tariffs for each line, subjected every railway to the inspection of the Government engineers, and provided for subvention by the State. All the lines were revertible to the State, normally after 99 years; but the State was given the option to take over any railway, after a minimum period marked in each concession, in exchange for compensation based on the average receipts for the preceding five years (*p*). An interesting, if somewhat blunt, description of the attitude of the Spanish Government, in those early years of railway development in the world, is given by George Higgin, a competent railway engineer. Writing in 1885, he pointed out that:—"As regards railways, John Bull had formed the opinion that the proper form of State aid should be by a guaranteed interest, whilst the Spanish Government had come to the conclusion that as regards themselves this was not a convenient form. The Spanish Ministers argued that it would be impossible for them to find out when a line was paying more than the guaranteed interest, that the system lent itself to abuses which they could not check, and that, as a matter of fact, any guarantee given by them would be perpetual, as the companies would so arrange their accounts as to show invariably an inte-

(*p*) G. L. Boag—The Railways of Spain, (1923), p. 17.

rest smaller than the guaranteed; they considered it preferable, therefore, to pay a lump sum down by way of subvention, and to have done, once for all, with the business; the system, however, was not according to John Bull's ideas, and as one was as proud and self-opinionated as the other, neither would give way; the result was that no English capital went to Spain for railway purposes...........John Bull considered that he was punishing Spain by buttoning up his pockets, but as a matter of fact he punished himself also. The capital he refused to give was found in France and Belgium, and to France and Belgium went all the orders for railway material'' (*q*).

8. *They did it differently in France.*—Considering that the requirements of the agricultural population of France, which was spread evenly over almost the whole country, could not be met adequately by the earlier private joint-stock companies who had obtained the rights of railway construction and operation from the Government at first, the terms they later offered to the companies appear to be quite a wise bargain. By about 1857, four years after the opening of the first lines in India, the Government of France had entered into uniform agreement regarding the working of the French railways with the six great limited liability railway companies, namely, The Nord, The Est, The Ouest, The Paris-Orleans, The Paris-Lyon-Mēditerraneē and The Midi. According to these agreements ("Ca-

(*q*) G. L. Boag, *op. cit.*, p. 14, foot-note.

shier des charges'') the Government obtained a control over the railways which was at least as complete as that which the contracts with the guaranteed companies gave to the Government of India (*r*). It was only in the case of the Midi that interest on the capital was guaranteed (*s*). The gauge, the maximum gradients, the minimum radius of the curves, conditions as to fencing, the speed and time of transit of all trains—in all these, the last word was to be with the State Minister of Public Works. The duration of the concession was for 99 years and there was the option to purchase earlier under certain terms (*t*). As regards lines which were not expected to yield a profit, though nevertheless required in the general interests of national progress, the Government of France entered into fresh ''Conventions'' with the six old concessionaires for working them. For the construction of these lines, called the ''new system''—whose accounts were to be kept separate from those of the earlier profitable lines comprising the ''old system''—subsidies were given by the State. Interest at 4 per cent. and sinking fund calculated at the same rate on the capital invested in the ''new system'' were guaranteed by the State for 50 years from 1865, subject to the following conditions (*u*). The net profits on the capital

(*r*) A complete account of the Cashier des charges is given in p. 5, *et seq* of Lord Monkswell, *op. cit.*

(*s*) Lord Monskswell, *op. cit.*, p. 11.

(*t*) *Ibid*, p. 7.

(*u*) Lord Monkswell, *op. cit.*, p. 10 *et seq.* It will be recalled

invested in the "new system" was, if sufficient, to be employed for paying interest on that capital. If not sufficient, the amount required was to be made up from any surplus that might remain over, after the net earnings of the "old system" had reached a certain specified sum, which was to be reserved as profits on that system. In case the amount available from these two methods was not enough to pay the 4 per cent. guaranteed as interest, the State was to supply the difference. Any advance made in this manner by the State was to be repaid with simple interest at 4 per cent. as soon as the net profits of the "new system" together with any surplus that might remain over and above the reserved profits on the "old system" were more than sufficient to provide the 4 per cent. on the capital of the "new system". When all loans, due to the State in this manner, were wiped off, the companies were allowed to retain the whole earnings till the net profits were increased up to a further point. Any excess after this point was to be shared equally between the Government and the companies (*v*). In case the advances made by the State had not been liquidated at the expiration of the concession, the amount still owing was to be deducted from the payment to be made to the company for the purchase of the rolling

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that it was 5 per cent. on the earliest Indian railways which were not so *definitely* expected to be unprofitable.

(*v*) Lord Monkswell, *op. cit.*, p. 11. The earliest contracts with the Indian railways, it will be seen, did not have a similar provision: *Vide* Clause (*iv*) in the terms.

stock and other movable property which the State was bound to take over at a valuation (*w*).

9. *First Change in Policy.*—The system of guarantees, begun in 1849 under Lord Dalhousie, was continued till 1869, when, at the end of Lord Lawrence's tenure of office, its burdensome nature was realised. His plea that the future lines should, so far as was consistent with actual and implied engagement with existing companies, be carried out by the Government itself was accepted (*x*); and during the next ten years all extensions to the railway system were carried out wholly and directly by the Government of India. Among the lines constructed or begun by the State agency and from State capital between 1869 and 1880 were the Indus Valley, Punjab-Northern, Rajputana-Malwa, Northern Bengal, Rangoon and Irrawaddy, and Tirhoot (*y*). The history of the development of Indian railways during this period and under this system is seen in the figures in Table two below.

Of the total railway mileage at the end of 1879, 2,175 miles (nearly a fourth) had been directly constructed by the State and the rest by companies (*z*).

10. *An unexpected deviation.—During* this period, 1869 to 1880, the policy of direct State con-

(*w*) *Ibid.*, p. 12. This is another useful clause missing in the terms with the Indian railway companies.

(*x*) J. Danver's report, *op. cit.*, p. 4.

(*y*) Railway Board Report for 1923—24, *op. cit.*, p. 75.

(*z*) *Ibid.*, p. 76.

TABLE 2.

(In Thousands of Rupees.)

Year.	Mileage open.	Capital outlay.	Gross earnings.	Working expenses.	Net earnings.	Loss or gain to State	% of 5 to 4.	% of 6 to 3.
1	2	3	4	5	6	7	8	9
1869	4,255	890,000	61,310	34,174	27,136	—16,200	55·74	3·05
1870	4,771	902,050	66,767	36,315	30,352	—19,300	54·47	3·37
1871	5,074	902,070	65,920	36,797	29,123	—18,200	55·82	3·24
1872	5,369	902,090	68,296	37,345	30,951	—23,600	54·68	3·44
187	5,697	917,260	72,290	37,785	34,505	—17,900	52·28	3·76
1874	6,226	958,715	83,377	40,389	42,988	—16,100	48·44	4·48
1875	6 541	1,009 628	79,137	39,748	39,389	—15,600	50·23	3·90
1876	6,860	1,047,785	73,338	44,645	48,738	—11,500	47·81	4·65
1877	7,320	1,090 424	121,128	53,868	67,260	— 1,500	44·47	6·17
1878	8,201	1,182 955	112,530	56,238	56,292	—20,700	49·97	4·76
1879	8,475	1,223,297	120,815	62,628	58,187	—15,700	51·84	4·76
1880	8,996	1,285,691	128,655	64,800	63,855	—10, 00	50·37	4·97

Compiled from Government of India's Reports on Railways, and The Indian Finance Year Book, 1932.

struction was thus in high favour and that of guaranteed company enterprise was accepted to be unnecessarily onerous. One would therefore expect that, under that provision in the contracts with the guaranteed companies which enabled the Government to acquire their lines, by giving six months' notice, after the first 25 years, prompt action would have been taken at the suitable time (*a*). Under this provision it was possible for the Government to acquire the Great Indian Peninsular Railway Company in 1874, and the Bombay, Baroda and the Madras Railways in 1880. But the Secretary of State for India took a step in 1869 which appears to be utterly inconsistent and nearly inexplicable; in that year, without reference to the Government of India, he entered into negotiations with the companies for giving up this right of purchase in 1874 and 1880 (extending the life of the companies for a second 25 years) (*b*); this was in return for a certain concession on their part; it was that in lieu of the provision in the contracts (*c*) that half of any surplus profits of the company was to be applied in repayment of sums advanced by the Government under the guarantee of interest, half of the surplus profits for each half year should be the property of the Government (*d*). In other words, surplus profits of the company over and above 5 per cent. was to be equal-

(*a*) Under Provision No. v, *supra*, sub-section (5).

(*b*) Horace Bell, *op. cit.*, p. 25.

(*c*) Provision No. iv, *supra*, sub-section (5).

(*d*) Railway Board Report for 1923-24, *op. cit.*, p. 75.

ly divided between the company and the State. According to the original contract, it is well to recall, in the event of the amount which had been advanced by Government for the guaranteed interest being repaid with interest, the whole of the net profit was to go to the companies. In return for this concession on the part of the companies concerned (first, the Great Indian Peninsular, and later the Bombay, Baroda Railway, and the Madras Railway), the Secretary of State agreed to forego the arrears due by the companies for guaranteed interest advanced year by year with the tax-payer's money, and to extend the life of the companies for another 25 years! The Secretary of State arranged to keep no account of guaranteed interest as against the companies and to cancel the past debt which was accumulating at an enormous rate (*e*). As soon as the Government of India came to know of these intentions of the "Home Government" they sent an able and forcibly worded Despatch pointing out their objections to such a course (*f*). It was urged that the concession by the companies in respect of the share of the surplus over 5 per cent. was an extremely dubious gain, while, on the other hand, the relinquishing of the arrears of interest and of the right to acquire the railways after the first 25 years would mean a heavy loss to the Government. But this reasoned protest came too late and the Secretary of State had made the

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(*e*) J. Danvers Report, *op. cit.*, p. 8; also see column No. 7 of Tables 1 and 2.

(*f*) Despatch No. 80 of the 12th August, 1870, referred to by Horace Bell, *op. cit.*, p. 26.

new contracts on the above lines with the three companies (*g*). Subsequent events proved that the worst fears of the Government of India were well-founded; they saw to it that the contracts were not renewed at the end of the second 25 years and the three companies were purchased in 1900, 1905 and 1907 respectively (*h*). For many years, these companies meant a loss to the Government, because payment of interest had to be made at 5 per cent. which was much higher than the then prevailing market rate. As late as 1900, when two of the old companies still remained, the Government of India remarked: "........ the expenditure side of the Government is further heavily weighted by the terms of the contracts of the guaranteed railways. Under these contracts payment of interest has to be made at a higher rate than is now necessary, and the calculation of the surplus profits has to be made at 22 pence in the Rupee while the current rate of exchange is nearer 16 pence. Until these contracts terminate, the state is unable to obtain any advantage from cheaper money or from the improved credit of the country or from a favourable exchange....." (*i*). The new terms to the three companies were in all these three cases a serious loss to the Government. But what the Government or the taxpayer lost, the

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(*g*) *Ibid.*

(*h*) History of Indian Railways by the Railway Board, India, 1936, pp. 34, 96 and 120.

(*i*) Report on Indian Railways for 1900 by Secretary to the Government of India, P.W.D., Railways, p. 2.

shareholders of the companies gained. Table No. 3 below gives an instance of how it happened (*j*). It was a strange arrangement by which if any company earned less than the interest charges, the loss fell entirely on the Government. If it earned more, it got more than a moiety of the surplus. The companies *really* got more than a moiety of the surplus because in calculating the surplus, the interest paid in England was converted into Rupees at the rate of exchange mentioned in the contracts, namely, 1*s*. 10*d*. per Rupee; the actual rate of exchange which prevailed in that year was 1*s*. 4¾*d*. The entire loss *due to this difference fell on the Government. In fact, looking at those figures and circumstances of the later sixties and the earlier seventies of the last century from this distance, with all the knowledge of subsequent events which we possess and which the men who determined the policies then did not possess and could not naturally foresee easily, it seems as though the fates themselves united to create a* national economic loss to India and to make the position of the shareholders of the companies in Britain fairly secure. For instance, Table No. 4 below shows how at the time the Secretary of State for India and the companies started negotiating for the postponement of state purchase by another 25 years (in 1869) and, in fact, up till the year 1874 when only the first company could have been bought, the average rate of sterling exchange on the Rupee was slightly above 1*s*. 10*d*. The contract was modified

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(*j*) Horace Bell, *op. cit.*, p. 28.

TABLE No. 3.

Year 1891—92.

In Tens of Rupees.

Railways.	Net traffic receipts.	Charges.				Gain or loss to the State.
		Interest.	Surplus profits.	Contributions to Provident Funds.	Total.	
G. I. P. ..	2,272,863	1,716,453	518,726	17,004	2,252,183	20,680
B. B. & C. I...	822,344	595,638	179,826	7,498	782,962	39,382
Madras. ..	397,911	757,339	..	..	757,339	—359,428
Total.	3,493,118	3,069,430	698,552	24,502	3,792 484	—299,366

and renewed, and the rate of exchange for calculation of the interest was fixed in the contract as 1*s* 10*d.* and from that year it began to grow less and less! ! Similarly it was fixed in the contracts that the rate of interest to be guaranteed was to be 5 per cent. However, from 1870 for 20 years, the Government found that they could get loans each year at a rate which never exceeded 4 per cent. !

TABLE No. 4.

Year.	Average rate of interest for loans.	Average rate of sterling exchange on the rupee for the year.	
		s.	*d.*
1870—71	3·98	1	10½
1871—72	3·93	1	10¼
1872—73	..	1	10¾
1873—74	3·90	1	10⅜
1874—75	3·94	1	10⅛
1875—76	3·98	1	9⅝
1876—77	3·92	1	8½
1877—78	3·94	1	8¾
1878—79	3·96	1	7¾
1879—80	4·00	1	8
1880—81	3·58	1	8
1881—82	..	1	7⅞
1882—83	3·97	1	7½
1883—84	..	1	7½
1884—85	3·20	1	7⅜
1885—86	3·52	1	6¼
1886—87	3·46	1	5½
1887—88	..	1	5
1888—89	3·12	1	4⅜
1889—90	2·98	1	4½
1890—91	3·02	1	6
1891—92.	3·18	1	4.

(Horace Bell, op. cit., p. 24.)

11. *Back to companies, but on more favourable terms.*—Severe famine, a frequent and dreaded visitor in the India of the 19th century, was particularly devastating in the years 1874 to 1879 when there was a succession of serious ones. The Famine Commission, which reported the next year, emphasised the urgent need for a rapid development of railway communications so that produce may move easily and quickly from areas where there was a surplus to the comparatively needy tracts. It became clear that the progress which was being made in the direct State Construction of Railways was inadequate to meet the requirements of the country as estimated by the Commission. At the same time the guaranteed private company on the old lines was obnoxious. They remarked apropos of this difficulty: "there would be manifest advantages in giving free scope to the extension of railways by private enterprise, if it were possible; and though the original form of guarantee has been condemned, it may not be impossible to find some substitute which shall be free from its defects, and may secure the investment of capital in these undertakings without involving the Government in financial or other liabilities of an objectionable nature" (*k*). Yet another period of construction by British Companies was begun in 1881 when the Bengal Central Railway Company was formed; this and two others, namely, the Bengal and North-western and the Rohilkund and Kumaon, which were started in 1882, had no guarantee of interest from the Government. Three others, namely,

(*k*) Railway Board Report for 1923-24, *op. cit.*, p. 76.

The Southern Maharatta in 1882, The Indian Midland in 1885, and The Bengal Nagpur in 1887, were given a guarantee of interest but on new (and more favourable to the State) terms. Of the first group of three, the Bengal Central was a failure from the outset; its terms had to be altered to one of guarantee. Finally it was purchased by the State and merged in the Eastern Bengal Railway with effect from the 1st July, 1905 (*l*). As for the other two companies, namely, the Rohilkund and Kumaon and the Bengal and North-Western, it is true that they did not have any guarantee of interest or any direct subsidy from the Government; but they were strengthened, through direct sharing of profits and through reduction of expenses by the fact that the working of certain State Railways was entrusted to them, the Tirhoot Railway to the former company, and the Lucknow-Bareilley Railway to the latter. The second group of three companies is important because they mark a new development, namely, the introduction of "modified guaranteed" terms. These railways were definitely declared to be the property of the State; only, the capital was supplied by the companies and they were to work the railways till the end of the first 25 years from their respective dates, when the Government could determine the contract or at subsequent intervals of ten years; when so determined, the companies were to be paid back at par the capital provided by them (*m-n*). The

(*l*) Railway Board's History of Indian Railways, 1936, *op. cit.*, p. 71.

(*m-n*) Report by the Railway Board for 1923-24 *op. cit.*, p. 76, *et. seq.*

contract with the Southern Maharatta Railway Company dated June 1, 1882, was the prototype of subsequent agreements with the other two, except for two differences. One is that the guaranteed rate of interest in respect of the Southern Maharatta was 4 per cent. for the first seven years and 3½ per cent. subsequently; in regard to the other two it was 4 per cent. The other difference is less striking, though quite important; and naturally it is generally not mentioned in the brief Appendix to the Annual Reports by the Railway Board where a short summary of the history of Indian Railways is given. In the contracts with all these "new guaranteed" companies it was provided that a fourth share of the net earnings was to go to them, and the remaining three-fourths to the Government. It is important to notice that the contract with the Southern Maharatta Company did not provide for the gross earnings being first charged for guaranteed interest on capital by the Government. They had to secure this out of the three-fourths' share of the net earnings on the railway that was allotted to them. This over-generous arrangement was abandoned in the agreements with the subsequent "new guaranteed" companies (*o*). In their contracts it was stipulated that net earnings should be arrived at only after charging the gross earnings with the interest paid by the State to the Company. The explanation for this distinction that was made is probably found in the fact that, at that time, the Southern Maharatta lines were viewed as essentially "famine-protection" lines that could not

(*o*) Horace Bell, *op. cit.*, p. 83, *et. seq.*

be expected to be productive of adequate revenue. It will be seen that experience of about three decades had enabled the State to obtain from the companies terms which were vastly more favourable to them than were those of the earliest contracts. Of course, writers of to-day—with a background of ideas like these, that the railways of Britain were developed without the State, as representing the tax-payer, subsidising them in any way, that those of the continent were deliberately and successfully used for implementing national economic policies, that the Government in India had no such deliberate objective, and that while they evinced an active interest in the promotion of railways they did not zealously exert themselves to build up any of the industries required to supply the materials demanded by the railways —may say that terms similar to these ought to have been and could have been obtained even from the first companies (*p*). But they the pioneers, Lord Dalhousie for instance, could not anticipate, with any degree of certainty, how the millions of the people in the sub-continent would react to this development; and further there was, as is only to be expected, an anxiety to introduce the railways in view of their undoubted value for general administrative and military purposes (*q*).

12. *Losses yet.*—As regards the details of the growth of Indian railways during this period of

(*p*) Jathar and Beri—Indian Economics: Vol. II, p. 186, and Dutt—India under the Victorian Age, p. 355, *et. seq.*

(*q*) *Supra*, sub-section (1).

"New Guarantee System" which began in 1881, Table No. 5 below gives a statistical summary of the extension of mileage, capital, gross earnings, etc., from year to year.

A study of the financial Tables 2 and 5 indicates that (a) the operating ratio, during the last quarter of the 19th century, never exceeded 52 per cent. and was usually less than 50 per cent., (b) that the percentage of net railway earnings to capital outlay varied from 6.17 to 4.65; (c) that in spite of (a) and (b), in every year, from the commencement of the railways in 1853 up till 1900, the State had to pay out of the revenues from general taxation a substantial sum—varying from Rupees 266 lakhs to Rupees 11 lakhs—to meet the deficit from railway operation; (d) that during all these years (and later too) the shareholders of the companies incorporated in Britain were regularly and unfailingly given their stipulated interest on the capital supplied by them; and, (*e*) that they also secured substantial payments as their share of "surplus profits" while, in fact, there was, all railways taken together, no surplus at all to the Government but a deficit. A just appreciation of the changes in policy and results that appeared later, of the present position and of the future trends, is possible only if these facts are not overlooked.

13. *Developments in other countries.*—Naturally and deliberately the development of early Indian railways has been discussed at some length. Even a brief examination of the results of railway opera-

TABLE 5.

In Thousands of Rupees.

Year.	Mileage open.	Capital outlay.	Gross earnings.	Working expenses.	Net earnings.	Loss or gain to State.	% of 5 to 4	% of 6 to 3
1	2	3	4	5	6	7	8	9
1881	9,858	1,408.080	143,231	70,712	72,519	— 2,900	49·37	5·16
1882	10.698	1,432,442	153,523	76,681	76,842	—13,100	49·95	5·36
1883	10,447	1,483,056	163,894	79,705	84,189	— 3,000	48·62	5·58
1884	11,527	1,554,504	160,662	81.562	79,100	—10,500	50 76	5 09
1885	12,208	1,619,178	179,896	88,633	91,263	— 7,300	49·27	5·64
1886	12,865	1,704,989	187,046	89 310	97,736	—11,900	47·75	5·73
1887	14,068	1,828,793	184,681	91,033	93,648	—21,200	49 31	5·12
1888	14,525	1,930,433	197,645	98,744	98,901	—22,300	49·96	5·12
1889	15,900	2,050 461	204,937	103,774	104.163	—18,500	50·67	4 93
1890	16,404	2,136,704	206,701	103,089	103,612	— 6,900	49 87	4·85
1891	17,283	2,210,642	240,403	113,039	127,364	— 3,200	47·02	5 76
1892	17,769	2,273,000	232,233	109,035	123,258	—18,500	46·94	5·42
1893	18,459	2,331,787	242,842	113,477	127,365	—15,400	47·12	5·46
1894	18,804	2,377.901	255,089	119,840	135,249	—23,500	46 98	5 69
1895	19,467	2,443,805	262 369	121.199	141,170	—16,200	46·19	5·78
1896	20,209	2,689,523	253.614	121,384	132,230	—26,600	47·86	4·92
1897	21,115	2,821,204	256,011	124,773	131,238	—14,300	48 74	4·65
1898	22,624	2,920,920	274,131	129,868	144.263	— 9,400	47 37	4·94
1899	23 507	3.085.012	293,678	139,366	154,342	— 1,100	47·45	5·00
1900	24,752	3,295,334	315,432	156,931	164,501	+ 4,900	47 85	4 99

Compiled from Government of India's Annual Reports on Railways, and The Indian Finance Year Book, 1932, p. 147.

tion in Britain, the United States of America and Germany will show that the position was very different there. It was seen that it was all unaided private enterprise in Britain; in fact, they had to grapple with the serious opposition of ignorant as well as interested parties (*s*). Every company without any exception was given a free grant of the necessary land in India. But in Britain the railway projectors of the early years had to pay over Rupees 100,000 a mile for land (*t*). Such handicaps notwithstanding, the railways developed rapidly in Britain, and by the time the first proposals for railways in India were made in 1844, Britain was covered with a net work of lines; in all, there were at that time 2,320½ miles of railway (*u*). The various parts of Lancashire were connected and these were linked with York and Leeds and Carlisle and Newcastle; and with these those of Birmingham, Rugby and London; by this time London was connected with Bristol, Exeter, Southampton, Brighton, and Norwich. While, for what at that time must have appeared good and sufficient reasons, the pioneers of Indian railways were assailed with doubts and diffidence whether railways would be "catching" in India, their *confreres* in Britain were quite optimistic (*v*). In a sense events justified both; the railways did mean a heavy loss to the Indian Government for

(*s*) *Supra*, sub-section (2).

(*t*) £.8,000; G. T. Warner, Landmarks in English Industrial History, (London), p. 302.

(*u*) Modern Transport, (London), *op. cit.*, 29-1-1938, p. 3.

(*v*) *Supra*, Lord Dalhousie's views, sub-section (1).

nearly the first five decades. In Britain they developed rapidly and without any expense to the Government. At the time the first railway, the Stockton and Darlington, was being constructed, George Stephenson told his son, "I venture to tell you that I think you will live to see the day when railways will supersede almost all other methods of conveyance in this country—when mail-coaches will go by railway and railroads will become the great highway for the king and all his subjects" (*w*). Events completely justified him. When Robert Stevenson died in 1859 there were 10,000 miles of line opened in Britain; by 1900 it was more than doubled (*x*). In the section on State Regulation, there will be occasion to mention the intense competition among the very large number of railway companies that existed in Britain in the 19th century (*y*). The few facts

TABLE 6.
British Railways.

Year.	Proportion of working expenses to total receipts. %	Proportion of net receipts to total paid-up capital. %
1870 ..	48	4.41
1875 ..	54	4 45
1880 ..	51	4.38
1885 ..	53	4.02
1890 ..	54	4.10
1895 ..	56	3.80
1900 ..	62	3.41

(*w*) G. T. Warner, *op. cit.*, p. 304.
(*x*) *Ibid.*
(*y*) *Infra*, section 3.

given in Table 6 below indicate that they were comparatively efficient and successful (*z*). The mileage of railways in the United Kingdom was 6,635 in 1850, 10,410 in 1860, 15,310 in 1870, 17,935 in 1880, 20,073 in 1890, and 21,855 in 1900 (*a-b*). In the United States of America where too the Government did not find it necessary to guarantee the interest on the capital of railway companies, there was quite a rapid development of railways. The operating ratio was higher than that of India and Britain, and the percentage return on capital varied from 3 to 5, during the corresponding period (*c*). In Germany the railway age began in 1835 when a line, four miles in length, was constructed from Nuremberg to Furth. By 1850 the aggregate mileage was 3,633. How it was steadily increasing since then is seen in the following figures (*d*).

Year.		*Total mileage.*
1875	..	17,488
1880	..	21,028
1890	..	26,136
1900	..	31,049

(*z*) Clapham: An Economic History of Modern Britain, 1850-1886, (London), Figures compiled from Kirkaldy and Evans, *op. cit.*, p. 100, *et. seq*.

(*a-b*) Ogg and Sharp—Economic Development of Modern Europe (New York), p. 233.

(*c*) Slason Thompson's Railway Statistics (New York), 1925, p. 40.

(*d*) Ogg and Sharp, *op. cit.*, p. 241.

In that country, as in India, the Government considered the railways to be an important means of attaining military efficiency (*e*). This objective, however, was not attained by guaranteeing the interest on capital of private railway companies, but generally by direct State construction and operation. Prussia which, in the last quarter of the 19th century, was the world's principal laboratory for the study of the problems of railway nationalisation, attempted with much success to run the State railways without putting a strain upon the general taxpayer (*f*). In India the railway-user and the general tax-payer were both obliged to share the annual cost of the railways (*g*). The Table below indicates that the State in Prussia found its railways a striking financial success.

TABLE 7.

1 Year.	2 % of net receipts.	3 % of State's net gain.
1895 ..	6.57	1.60
1896 ..	6 96	1.51
1897 ..	6.94	1.73
1898 ..	6 85	1.64
1899 ..	7.03	1.82
1900 ..	6.87	1.89

(*e*) *Supra*, sub-sections 4 and 1.

(*f*) Ogg and Sharp, *op. cit.*, p. 241.

(*g*) From 1858 to 1900.

Figures in Table 7 are compiled from E. A. Pratt, "The Case against Railway Nationalisation"—p. 43. These results were obtained for many years later also.

14. *Purchases by the State.*—In the contracts with the earlier guaranteed Indian railway companies as well as in those with the companies formed in 1881 and later, there was a provision reserving to the Government the right of terminating the contracts and purchasing the companies at an intermediate date after the first 25 years or any other stipulated period. It was the policy of the Government (except in the cases mentioned above, when the purchase of some of the old guaranteed lines was postponed in order to secure to the Government a share in surplus profits) to use in some way or other at the earliest possible date this right of terminating the contracts of the various companies. The form in which the price of the purchase was paid varied in the different cases; in the case of some companies it was cash; in some it was India Stock, and in others it was wholly or in part in terminable annuities (*h*). To take an instance; the contract with the East Indian Railway Company was terminated in 1879 (*i*). The value of the company's shares was fixed at £.125 per £.100 (*j*). The purchase price, therefore, came to be £ 32,750,000. This sum was converted into a terminable annuity of £ 1,473,750 payable annually till February 1953. In this manner the East Indian Railway system became the property of the State. A new contract was entered into,

(*h*) Full details are given in the Report on the Committee on Indian Railway Finance and Administration, (Mackay), 1908.

(*i*) The terms are mentioned in p. 61 of East India (Railway Committee's) Report, (Acworth), 1920-21.

(*j*) Under clause (v) in the contract, *supra*, sub-section (5).

according to which the shareholders of the East Indian Railway Company representing £6,550,000 ....*i.e.*, one-fifth of the purchase price—agreed to postpone their annuity and, in place of it, to accept new terms. Under these, the management of the company was entrusted to these "deferred annuitants". They were guaranteed 4 per cent. on the capital plus a certain share of the surplus profits. By surplus profits was meant so much of the gross receipts as remained after meeting working expenses, annuity sinking fund payments and interest on loan capital. Of this surplus profits the company was entitled to one-fifth, and, under the later contract of 1900, to one-fifteenth.

In this manner the State acquired or retained the ownership of many railways, but the management was mostly in the hands of companies (*k*). It is this that makes the essential difference between the old and the new companies; the old companies were owners; the new companies were not owners but they managed the undertakings. The East Indian Railway Company was the earliest and the most important of the guaranteed companies and "though the process of the extrusion of the private investor was carried further in the case of that railway, the East Indian position was practically typical of the

(*k*) By 1908 the Government by the exercise of their power of purchase had come into the ownership of (1) the E.I., (2) the E.B., (3) the S.P. & D., (4) the O. & R., (5) the S.I., (6) the G.I.P., (7) the B.B. & C.I., and (8) the Madras. Barring (2), (3), and (4), all these were left to company management. Mackay Report, *op. cit.*

whole situation of all the other guaranteed companies" (*l*).

Section 3. Theory and Practice of Early State Regulation.

15. *Prior to the Indian Act of* 1854.—Under the provisions of the contracts with the companies the Government of India secured, from the outset (*m*), detailed control over the management of the railways. For instance it was stipulated that:—(*n*)

(*a*) The Government would determine the route to be followed, and had power to alter or extend it.

(*b*) The Government had power to determine the number, speed, and times of running of trains, to approve the fares leviable, and to require a reduction of these when the line paid over 10 per cent.

(*c*) Entire control and superintendence was reserved for Government over the servants of the company, and free access stipulated for to all books, papers, and accounts, together with the appointment of an unpaid Government Director who had power of veto.

(*l*) Acworth Report, *op. cit.*, p. 62.

(*m*) The earliest contracts are dated August, 1849; *supra*, sub-section (5).

(*n*) *Supra*, sub-section (5).

(*d*) If the line was not properly maintained when open, the Government had power to do what was necessary and to deduct the cost from the sum due for guaranteed interest (*o*).

(*e*) Finally the Government bound itself to promote such legislation as might be necessary to enable the company to fulfil the objects of the undertakings (*p*).

According to provision (b) above, the companies had to secure the Government's consent for the fares they charged, and they were to be reduced when the dividend on the capital outlay exceeded 10 per cent. The Government, however, acted on the principle that it would be quite adequate from the point of view of the consumer of railway service, to fix maximum rates for goods and passengers within which the companies were free to alter at their own discretion (*q*). The Government exercised their power, under provision (e) above, for the first time in 1854, when the first railway enactment, Act XVIII, was passed. Since, in this Act as in many others, the Indian Government followed the precedence set up in the United Kingdom, it will be useful to inquire into the evolution of the policy of the Government of that country in respect of this vital question.

(*o*) Horace Bell, *op.cit.*, p. 62.

(*p*) *Ibid.*, p. 62.

(*q*) *Ibid.*, p. 189.

16. *Position in Britain in the 19th Century.*—The British railways were constructed under private Acts of Parliament which may be said to be the counterpart of the Articles and Memorandum of Association of ordinary companies. Parliament was liberal in granting such charters, and at the close of 1843 there were 71 separate companies; and in the period 1844-47 there were 637 separate roads (*r*). Although it was a period when the policy of laissez-faire had a very wide appeal and vogue, Parliament could not go on sitting with folded hands, merely allowing numerous railway companies to start working. In 1835, just ten years after the opening of the Stockton-Darlington, the British Parliament passed the Highways Act (*s*). That was the beginning of a series, and who can say that the last word has been said yet? That Act confined itself to screening, and gates for level crossing for ensuring safety; it was soon followed by other Acts in 1839, 1840 and 1842. The Government proceeded cautiously, step by step. For instance, the Act of 1840, whose modesty Wellington regretted, with its amending Act of 1842, did little more than enjoin that no railway might be opened without notice given to The Railway Department of the Board of Trade. The Board might send Inspectors "at all reasonable times". It had to sanction bye-laws, correct statistics of traffic and accidents, and it might postpone the opening of lines with whose construction its inspectors were not satisfied. These

(*r*) Ogg and Sharp, *op. cit.*, p. 232.

(*s*) Sherrington, *op. cit.*, Vol. I, p. 226, *et seq.*

Acts laid the foundation for a very effective control of railway construction in the interests of the railway-users, but did little else (*t*). The Act of 1844, for which Gladstone was mainly responsible, provided that if the profits of any railway amounted to 10 per cent. per annum for three years after the expiration of a period of 21 years from the date of its obtaining the Parliamentary sanction for commencing operation, the Treasury could revise the tolls so as to reduce the divisible profits to the level of 10 per cent (*u*). The Act is famous also for its clause enjoining the running of one train per day in each direction for conveying third-class passengers in closed carriages with seats, at a charge not exceeding one penny per mile; half a Cwt. of luggage and children under three were to be free (*v*). Pernicious practices of undue preference were adopted by some railways; and it was to remedy them that the Railway Clauses Act of 1845 and the Railway and Canal Traffic Act of 1854 were passed (*w*). There was a section of public opinion which was not satisfied by these Acts and which insisted on more detailed control over the charges levied by the railway companies. However, that laissez-faire was still quite popular is seen in the Report of a Royal Com-

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(*t*) Clapham, J. H., *op. cit.*, p. 417.

(*u*) Sherrington, *op. cit.*, p. 228. *Cf.* the clause (b), regarding Indian railways, in sub-section (15), *supra*.

(*v*) *Ibid.*

(*w*) "The Act was not much used, and the Court (to interpret the Act) was neither very ardent nor very competent to interpret it", Clapham, *op. cit.*, p. 194.

mission that was set up in 1865 to inquire into these questions. The Commission said that they did not "consider it to be expedient, even if it was practicable to adopt any legislation which would abolish the freedom the railway companies enjoyed of charging what sum they deemed expedient, within the maximum rates when properly defined, limited as that freedom was by the conditions of Traffic Act" (*x*). With the passage of the Regulation of Railways Act of 1868 the statistics relating to the working of the railways came to be submitted to the Government; accurate and elaborate statistics and accounts in a large number of approved returns and forms had to be presented to the Government, and they served as a good check for ensuring economical and efficient management of railways (*y*). Three years later The Regulation of Forces Act was passed. It empowered the Government to take over the railways in a time of national emergency (*z*). To sum up: till the forties the Government Regulation was aimed mainly at securing Safety; in the middle of the century it was aimed at reducing the evils of monopoly like extortionate charges and discrimination. The early eighties were marked by the first concerted attempt on the part of the commercial interests of Britain to secure lower rates and fares. The

(*x*) *Ibid.* P. 236. *Cf.*, similar policy of the Government of India, sub-section (15) *supra*, and 17, *infra*.

(*y*) Until this Act was passed the Government had no compulsory powers: "They must beg for information from the companies". Clapham, *op. cit.*, p. 191.

(*z*) Sherrington, *op. cit.*, p. 238.

British people and the Government were, at the beginning, of the opinion that merely by encouraging competition among the railway companies and between them and other forms of transport, they would be safeguarding themselves. By about 1870 they knew their mistake; a monopoly was inherent in the industry. A Select Committee of both Houses inquired into the matter of railway monopolies and amalgamations in 1872. "In the marginal analysis of its conclusions occured the heading—amalgamation inevitable; and perhaps desirable" (*a*). The Committee was, however, quite definite in pleading for an expert tribunal, not an ordinary court of law for inquiring into disputes arising out of railway legislation. Parliament agreed and set up the Railway and Canal Commission by the Act of 187 (*b*). The Act also contained an important provison which ensured the availability of the schedule of rates and fares to the public (*c*). There was a serious handicap yet; for, the Commission was not a permanent body. It was a five-year commission, which was prolonged thereafter from year to year till 1888. Things were greatly improved by the 1888 Railway and Canal Traffic Act. It led to the submission of a revised classification and a revised scale of maximum charges to the Board of Trade. The 1894 Act went a step further and declared that the onus of proof, as to whether any increase in the rate charg-

(*a*) Clapham, *op. cit.*, p. 186.

(*b*) *Ibid.*, p. 195.

(*c*) Sherrington, *op. cit.*, p. 238.

ed was reasonable, rested with the railway company concerned (*d*). Such, in brief, is the history of Government control over the British railways during the last century. The essence of the system that was evolved was that the railways were allowed, as has been seen, to fix their charges, provided they did not exceed certain maximum rates and did not give an undue preference to individual traders. This was the system that was abolished in the 20th century (*e*).

17. *Compared with Indian State Policy of the same period.*—The earliest Railway Act in India, that of 1854 (Act XVIII), contained rules regarding fencing, the liability of companies as to luggage and valuable property, the prepayment of fares, tickets, smoking, etc. The last clause in the Act required that the copy of the Act, of the general regulations, the time-tables and tariff of charges should be published and exhibited in English and the district vernacular at all stations (*f*). In 1870 a short Act was passed giving a list of "Definitions for the previous Act". The question of cattle trespass and some other minor matters were dealt with by another brief Act (XXV of 1871). A comprehensive Act passed in 1879 (Act No. IV of 1879) repealed the previous Acts, and remedied the evils that

(*d*) *Ibid.*, p. 239.

(*e*) Lord Hailsham—Law Reports—(Of the Incorporated Council of Law Reporting), p. 276. The system was abolished by the 1921 Act, vide *infra*.

(*f*) Horace Bell, *op. cit.*, p. 226.

had become apparent by then. For instance, it was now clearly laid down that the term a "Railway Administration" was to cover the case of the managers of State Railways, or railways worked by Indian States, or by companies (*g*). The most important clause was clause V according to which no railway was to be opened for the public carriage of passengers till the line had been duly inspected by an Officer of the Government and until he had reported that the opening could be allowed without danger to the public. The need for further legislation in the shape of a general Railway Law was increasingly felt by the railway companies, mainly owing to the questions which arose in the inter-change of traffic and in the settlement of the consequent differences. By this time the Railway and Canal Commission had been created in Britain and it was felt that a similar body would be very suitable for the settlement of any disputes between the railways and between them and the traders. The Indian Railways Act, 1890, (Act IX of 1890) which came into force on the 1st May of that year is the most important and comprehensive legislation on Indian railways. It is an Act with 10 Chapters, 150 Sections, and Two Schedules, exhaustively dealing with inspection of railways, construction and maintenance of works, opening of railways, responsibilities of railway administrations as carriers, accidents, penalties and offences—providing the law on the subject in a thorough manner. Suffice it to say that it followed more or less closely

(*g*) Horace Bell, *op. cit.*, p. 231.

the example of the provisions made in the United Kingdom's Acts, except in a few important particulars; the most important difference was in chapter V of the Act entitled "Railway Commissions and Traffic Facilities" (*h*). Unlike the British Act of 1888, sub-section (1) of Section 26 of the Indian Act laid down that a Railway Commission could be appointed only as and when the Governor-General in Council thought fit. Further, unlike the Railway and Canal Commission of the British Act, under Section 39 of the Indian Act the Railway Commission here was a temporary tribunal. Moreover, Section 27 said that "The Commission shall take cognizance of such cases only as are referred to them by the Governor-General in Council". Sections 42-46 explained the nature of the cases that may be referred to the Commission, and these were complaints of undue preference, terminals, disputes regarding through rates between the different railway companies, etc. The protection against undue preference in Chapter V of the Act was a broken reed; because the enforcement of the remedy under the Act involved the setting up of, as has been pointed out, a special court to try each individual case; and the procedure was so cumbersome that the whole Chapter V of the Act remained a dead letter as late as 1921 when the Acworth Committee inquired into Indian railway questions (*i*). The Government of India which in other provisions regarding safety, etc., followed the

(*h*) Described briefly, *infra*.

(*i*) Acworth Committee Report, *op. cit.*, p. 146.

precedent of the British Acts, deviated from the British model in this vital matter and the consequence was really very serious. "It is an Indian grievance of old standing—it was voiced in the Legislative Assembly at Delhi in 1915 by a distinguished Indian, later a Member of the Executive Council in Bombay, Sir Ibrahim Rahimtoolah—that the railways fixed their rates to suit their pecuniary interests—if indeed it be not to suit the interests of European merchants—regardless of the effect of these rates on the native industries of India. And we have no doubt that the charge is accepted as proved by a large proportion of Indian traders" (*j*). Had the Indian Railways Act of 1890 provided for a Railway Commission closely parallel to the Railway and Canal Commission created by the British Act of 1888, it might have been possible to liquidate most of such suspicions and misgivings.

The Act of 1890 was silent on the question of rate fixing. According to the contracts with the companies the Government had ample powers because no charges could be fixed without their approval. The policy of the Government, however, was, from the beginning, to fix maximum rates and fares, within which the companies were free to alter at their own discretion (*k*). The fixing of maxima rates and fares had been recognised in the English Acts (*l*). In India, however, there were the guaran-

(*j*) Acworth Report, *op. cit.*, p. 149.

(*k*) *Supra*, sub-section (15).

(*l*) *Supra*, sub-section (16).

teed companies; and it became clear to the Government that the companies could be so worked as to create a loss to the Government without affecting the interests of the shareholders. Therefore, unlike the British example, the Government of India had to fix *minima* rates and fares also. The essential features of the policy which the Government of India have consistently followed in respect of the fixation of rates and fares was described by them in these words:—

> "That the schedule of maxima and the minima rates and fares, forming Appendix A to this resolution, shall be adopted on all railways worked directly by the State, and by all other railway administrations, whether their lines be already opened or not, so far as this schedule is not inconsistent with any contracts or agreements previously entered into; and that it shall not be departed from without due cause being shown. That there shall be no undue preference, either as between two railway companies or between a railway company and a particular person or class of individuals by making preferential bargains, or by granting to one particular company or person more favourable conditions for the carriage of goods than to the rest of the public at large" (*m*).

Thus towards the close of the century the position in India was this: the Government of India obtained and exercised full and comprehensive powers of control and regulation over all railways in India, Company-owned as well as State-owned; in regard to all matters connected with safety, convenience, publicity and efficiency, this was secured as in Britain by means of legislative enactment; also, unlike Britain, by means of the contracts with the companies. In one important matter, however, the policy of the

(*m*) Government of India's Resolution No. 1446-R.T., dated 12—12—1887 quoted by Horace Bell, *op. cit.*, p. 218.

Government of India differed from that of Britain; and that was in regard to the kind of tribunal set up to inquire into the complaints of railway-users against the rates quoted by the railways on the grounds of discrimination or absence of reasonable facilities.

18. *The Policy of America.*—That the earlier State policy towards the railways was—with some exceptions as in the case of Germany—one of interference only when it became quite necessary in the interests of the public, such as, for instance, to ensure safety and to eliminate undue preference and extortionate charges, is confirmed by the history of American regulation of railroads. The Government as well as the general public of the United States of America welcomed and encouraged the rail-companies during the beginning of their career (*n*). Indeed, they were hailed as the "pioneers of dawning civilisation" (*o*). By about the fifties, however, they realised that this mighty form of transport needed to be controlled and regulated. As in other countries, such control was sought to be exercised through statutory prohibitions enforced by a Commission. Till the seventies of the last century the need for federal control was not felt. Supervision by commissions appointed by the States was considered to be enough (*p*). About 1870, how-

(*n*) *Supra*, sub-section (3).

(*o*) Eliot Jones—Principles of Railway Transportation, p. 185, *et seq.*

(*p*) *Ibid.*

ever, a nation-wide agitation was started by some leaders of the agriculturists. The gravamen of their charge was exorbitant rates and discrimination. In Britain, on the other hand, there were, by this time, statutory enactments against unfair preferential treatment laid down in the earlier Railway and Canal Acts. In the United States, where no legislation of this kind existed at that time, railways were frequently purchased by industrial interests with the express purpose of ruining their competitors, and abuses of this kind became frequent (*q*). In 1867 a society called "The Patrons of Husbandry" was started and under its auspices the farmers held meetings and conducted a powerful campaign against monopolies in general and the railways in particular. Their meetings were held in granges or barns and hence the name "The Granger Movement". As it frequently happens, the position was worsened by the way in which the railways and their officials reacted to this agitation. They believed and acted on the principle that the railways were private enterprises organised with a view to earn profits, and that, therefore, they owed no obligation to the public. Such a stiff-necked attitude on the part of the railway officials aggravated the public indignation to such an extent that when a judge in Illinois declared a State Law instituting a series of maximum charges as unconstitutional they refused to re-elect him (*r*). After this first unfruitful at-

(*q*) The Times (London), Article on Railways, dated May 14, 1932.

(*r*) Eliot Jones, *op. cit.*, p. 185.

tempt to secure state control over railway rates, Illinois again passed a law in 1873 establishing a Commission to regulate rates (*s*). Several other States emulated the example set by Illinois. The railways questioned the constitutional validity of these laws, basing their objection particularly on the plea that they were repugnant to the Fourteenth Amendment of the Constitution which forbids the States from depriving any person of property without due process of law. The inevitable test-case—*Munn* v. *Illinois*—enabled the Supreme Court to put the lid on this controversy by declaring the law to be valid. They unequivocally declared that "property becomes clothed with a public interest when used in a manner to make it of public consequence, and affect the community at large. When, therefore, one devotes his property to a use in which the public has an interest, he, in effect, grants to the public an interest in that use and must submit to be controlled by the public for the common good" (*t*). The Inter-State Commerce Commission was established in 1887 when The Act to Regulate was passed; federal control over rates with a view to prevent profiteering and undue preference was clearly established.

(*s*) *Ibid.*

(*t*) *Ibid.*

CHAPTER II.

CHANGES IN CONCEPTION OF STATE POLICY IN RECENT YEARS AND THEIR RESULTS.

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CHANGES IN CONCEPTION OF STATE POLICY IN RECENT YEARS AND THEIR RESULTS.

SECTION 4. THE POSITION TILL THE ARMISTICE.

19. *The pre-war years.*—During the pre-war years of the 20th century the outstanding features of Indian railways were their rapid expansion and the beginning of railway profits. The figures in Table 8 testify to these. The notable feature in the railway policy of Britain during this period was the steady headway that the tendency to amalgamation was making. It was seen that from the very earliest times the railways of that country were subject to Government control in regard to safety of travel, maximum charges for different types of traffic and the limitation of profits. There was the practice of granting exceptional rates; and the maximum charges fixed by the State were substantially higher than the actual rates charged by the railway companies. These, however, were not excessive (*a*). They were kept at a reasonable level by the united force of public opinion and by the rivalry of competing companies, which was, practically throughout the last century, deliberately encouraged by the Parlia-

(*a*) Article in the Times (London), 13-5-1932, *op. cit.*

TABLE 8.

In Lakhs of Rupees.

Year.	Capital at charge.	Gross earnings.	Working expenses.	Net earnings.	Loss or gain to State.	% of 4 to 3.	% 5 to 2
1	2	3	4	5	6	7	8
1901—02	33,917	3,360	1,572	1,788	127	46.79	5.27
1902—03	34,977	3,393	1,670	1,722	34	49.24	4.92
1903—04	34,111			1,890	129	47.52	5.54
1904—05	35,286				316	47.36	5 91
1905—06	40,200	3,820	1,889	1,889	300	47.85	4.7
1906—07	41,500	3,926	2,075	1,950	347	49.89	4.7
1907—08	43,700	4,195	2,360	1,879	236	51.42	4.3
1908—09	45,800	4,250	2,519	1,466	—186	60.24	3.2
1909—10	46,900	4,362	2,486	1,829	124	56.06	3.9
1910—11	48,227	4,594	2,448	2,146	303	53.03	4.4
1911—12	49,227	5,036	2,589	2,447	568	51.4	4.9
1912—13	50,605	5,602	2,801	2,701	721	50.9	5.3
1913—14	52,269	5,631	2,935	2,696	719	52.1	5.2

Compiled from Annual Reports of the Government of India on Railways and the Report of The Railway Retrenchment Sub-Committee; pp. 134 et seq.

ment. The definite turn of the tide in favour of closer co-operation among the railways began in 1909, the year in which a Departmental Committee on Railway Agreements and Amalgamations was set up; two years later, that Committee in its report blessed the working agreements which had already been instituted among some of the companies (*b*).

20. *Yeoman service during the War.*—During the period 1914-21 the railways of India seriously deteriorated and broke down. This was partly due to War-time pressure on them, and partly due to the drastic reduction of the annual programme of capital expenditure (*c*). The following factors combined to make a tremendous increase in the demand for transport during this period:—

(*a*) The movement of agricultural produce was greatly stimulated by the increased demand from Great Britain and the many Expeditionary Forces, for rice, wheat and other food grains;

(*b*) As the War progressed the coal traffic increased very heavily because of the Admiralty's growing requirements;

(*c*) There was considerable transport of troops in connection with the campaign in Mesopotamia, East Africa and the Frontier.

While these three causes increased the demand for transport, the military need for ships leading to

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(*b*) The Times, *op. cit.*

(*c*) *See* Table 10, *infra.*

a shortage in marine tonnage diverted a huge volume of traffic to the railways which previously used to go by sea. Naturally the Government of India were forced to reduce passenger train services, withdraw concessions and increase fares. There was an unprecedented demand for all kinds of railway material in the various theatres of War. India could import no supplies of rolling stock or other materials for replacement, letting alone additions (*d*). But very soon the position became worse when the Indian railways' resources—meagre and fast wearing thin—..........were urgently demanded to meet over-seas requirements. Large numbers of wagons, locomotives and vehicles and enormous quantities of rails were despatched to the theatres of operation. On one occasion 500 miles of track already under traffic were dismantled and sent out of the country. The railway workshops were required to work at full pressure for the manufacture of portable huts, armoured cars and several other kinds of military equipment (*e*). Large numbers of railway employees, of all grades, were released for employment in the military department. The depletion of the staff and equipment naturally caused an intolerable strain upon the railways of India. It was generally accepted, however, that the demands made on the Indian railways to meet the grave crisis to the Empire were met with remarkable generosity and success (*f*).

(*d*) Acworth Report, *op. cit.*, p. 70.

(*e*) Railway Board Report, 1921, *op. cit*.

(*f*) Railways apart, the Indian services in the War can be under-

TABLE 9.

(In Lakhs of Rupees).

Years.	Mileage open.	Capital outlay.	Gross earnings.	Working expenses.	Net earnings.	Loss or gain to State.	% of 5 to 4.	% of 6 to 3.
1	2	3	4	5	6	7	8	9
1914—15	26,174	53,822	5,415	2,952	2,463	324	54.5	4.6
1915—16	24 262	54,350	5,725	2,952	2,773	611	51.6	5.1
1916—17	26,401	54 443	6,293	2,976	3,297	1,122	47.6	6.1
1917—18	26,263	54.585	6,891	3,135	3,756	1,487	45.5	6.9
1918—19	26,416	54,979	7,624	3,706	3,918	1,586	48.6	7.1

Report of the Railway Retrenchment Sub-Committee of the Retrenchment Advisory Committee, 1931, pp. 134-35.

How during the years of the War the annual expenditure on capital items was drastically cut is illustrated in the Table below.

TABLE 10.
(In crores of Rupees).

Years.	Open lines.			New lines.	Grand Total.
	Works (including Stores).	Rolling Stock.	Total.		
1913—14	9.29	7.31	16 60	1.86	18.46
1914—15	6.72	9 08	15.80	1.35	17.15
1915—16	1.74	4.06	5.80	.94	6.74
1916—17	1.14	.72	1.86	1.11	2.97
1917—18	1.49	.90	2.39	1.40	3.79
1918—19	5.02	.71	5.73	.51	6.24

Administration Report for 1921-22 p. 1.

We may notice that, during these years of stress, there was a striking similarity between America and Britain in the development of their railway policy. In the case of both countries the Government took possession of the railway system, lock, stock and barrel, during the War. The peoples of both countries decided upon a return to private ownership

stood by these facts. About 1,457,300 Indians had served over-seas, of whom 552,000 were combatants, and the additional military expenses borne by India amounted to £.40,000,000 besides the assumption on behalf of India of £. 100,000,000 of War debts. Delisle Burns—A Short History of the world, (London), p. 338.

after the War after passing a comprehensive Act of their legislature remodelling the conditions and outlook of the railway systems (*g*). The Government of Britain kept the railways under its control until two years after the Armistice. The companies were paid by the Government a rental equivalent to the net revenue they earned during the year previous to the War, 1913. During those seven years there was naturally heavy wear and tear due to the immense war traffic. When the railways were returned to private ownership the Government paid a lump sum of £.60,000,000 as compensation for deterioration and arrears of maintenance (*h*).

SECTION 5. POST-WAR CHANGES.

21. *Two long-standing evils of Indian railway finance.*—During the first few years after the Armistice public attention in India was focussed on two old and serious evils of the Indian railway policy. This was mainly due to the pointed and forceful way in which the Railway Committee, 1920-21 (presided over by Sir William Acworth) called the attention of the Government to these two aspects. They were:—

(*a*) The practice of mixing up railway revenues and expenditure with those of the general civil and military administration;

(*b*) The absence of a regular Depreciation Fund.

(*g*) The analogy is carried further in Philip Burtt's Railway Rates, Principles and Problems, p. 109.

(*h*) The London Times, *op. cit.*, 13-5-1932, p. 10.

(*a*) It was the practice, from the beginning, for the revenues of the Indian railways to be paid into the Government treasuries. The Government of India would sanction any moneys required by the railways for revenue as well as capital expenditure. This was the system which the Acworth Committee, with much effect, and many others before it, with little effect, condemned most unequivocally (*i*). Under this system the interests of the railways naturally became wholly dependent on the position of the general revenues of the Government of India. If, for instance, owing to any disturbance in the Indian frontiers, the Defence Department required more money than what they originally thought would be their need, frantic and imperative orders would go forth to the railways to "economise" in their capital as well as working expenses. The total budget receipts of the Indian Government for the year 1919-20, leaving out railways, were about 180 crores of rupees; the revenue receipts of the railways were rupees 82 crores. In other words, the railway receipts were nearly half as large as all the other items of receipts in the budget put together. "In times of bad harvest and bad trade receipts fall off. The Finance Member is constrained to economise. He cannot reduce the army or the civil services wholesale at short notice. Nor can he refuse to pay railway wages or to provide currently consumable stores. He can and does curtail his appropriation to railways for renewals and betterment works. And

(*i*) Acworth Report, *op. cit.*, para. 58; prior to that Lord Curzon in a Minute dated 18-2-1900, *ibid.*, para. 78.

he cuts down still more drastically expenditure on new works and extensions, even though they may be in process of execution" (*j*). In bumper years the railways would be supplied with generous amounts of money and would be expected and urged to spend them. There was neither planning nor certainty in the financing of Indian railways. The procedure by which stores were obtained from England frequently involved delays which led to the grants for the year lapsing. The amounts which thus lapsed were not always granted in the next year and consequently the programme of construction would be upset. "Large works, such as railways, cannot profitably be executed by driblets. Once started, economy is best secured by keeping the establishment at its full working power, by supplying materials in a regular flow at the time that they are required, and by completing sections as an aid to the rest. Starting and stopping work spasmodically from time to time, suddenly discharging labour carefully collected and trained and as suddenly endeavouring to collect it, keeping highly paid staff partially or wholly unemployed for months, at one time sending out material for utilising which there are no funds, at another time suspending work for want of material, and throughout operating on uncertain and fluctuating resources—this is a mode of business which no mercantile firm could pursue with impunity or would even contemplate seriously" (*k*). A telling instance

(*j*) Acworth Report, *op. cit.*, para. 34.

(*k*) K. V. Iyer—Indian Railways; Quotation from Member-in-Charge, P.W.D., The Government of India.

of the hampering effect of this unbusinesslike system is afforded by the Itarsi-Nagpur railway, a line of 238 miles in length, whose construction was begun in 1908 and completed in 1924! (*l*).

22. (b) *Depreciation.*—Several of the old guaranteed companies maintained Renewal Reserve Funds up till 1875; in that year the Secretary of State, on the representation of the Government of India, decided to abolish them; this was mainly due to the fact that they were considered to have led to results unfair to the State, in consequence of the terms of their contracts (*m*). From that date began the practice of providing for renewals and replacements not by a proper Depreciation Fund but by allotting each year a grant from Revenue for expenditure on such objects. Strangely, the practice was not given up even though such onerous contracts were determined, and even though by the early twenties of this century almost all the railways in India became the property of the State (*n*). The results were nearly disastrous. "It might have been expected that control purely from the financial point of view would at least have resulted in correct and unimpeachable financial orthodoxy. This has not proved so in practice......Now in every commercial concern Capital Expenditure and Revenue Expenditure are constantly inter-mixed. And a prudent

(*l*) Acworth Report, *op. cit.*, para. 38.

(*m*) Depreciation Fund Committee Report, 1922-23, para. 1.

(*n*) In favour of more advantageous contracts.

Board of Directors, especially when the concern they are managing is prosperous and paying substantial dividends (*o*), takes very good care that Revenue is debited with its full share. The principle is clear that by the time the usual life of an asset or a building has expired, its full original cost should have been written off out of Revenue. This has not been the case on the Indian railways. There are scores of bridges with girders unfit to carry train loads up to modern requirements; there are many miles of rails, hundreds of engines, and thousands of wagons whose rightful date for renewal is long past. Their cost has not been written off......The Government has formed no replacement reserve......It is not now physically possible within a short period of one or two years to replace all the plant of which the economic life is exhausted.....The position due to the unwise methods of the past must be redressed gradually (*p*)". This is a grave indictment; and the policy which led to these deplorable results was of long standing and not merely the result of the exigencies of the War period (*q*).

23. *Financial results till then.*—Such a clear and forceful exposition of the policy adopted in the previous seven decades and that by such an authoritative and representative body was bound to be followed by radical reforms (*r*). Before they are mention-

(*o*) See columns 6, 7, and 7 of Tables 8, 9 and 11 respectively.

(*p*) Acworth Report, *op. cit.*, paras. 67, 68 and 69.

(*q*) *Ibid.*, p. 31, foot-note; also *infra*.

(*r*) The personnel was:—Sir William Acworth, with a world

TABLE 11.

(In Lakhs of Rupees).

Years.	Mileage open.	Capital outlay.	Gross earnings.	Working expenses.	Net earnings.	Loss or gain to State.	% of 5 to 4.	% of 6 to 3
1	2	3	4	5	6	7	8	9
1919—20	26,388	56,192	7,909	4,546	3,363	935	57.5	6.0
1920—21	26,652	58,534	8,098	5,452	2,646	565	67.3	4.5
1921—22	26,804	60,599	8,169	6,667	1,602	—909	80.4	2.6
1922—23	27,005	62,233	9,322	6,596	2,726	122	70.8	4.4
1923—24	27,072	64,072	9,465	6,105	3,360	644	64.5	5.2

Report of the Railway Retrenchment Sub-Committee of the Retrenchment Advisory Committee, 1931, pp. 134, 135.

ed and examined, it will be appropriate to notice the financial results of this period, the last of the old system.

It is not of profit to discuss at any length the financial results of Indian railways during the last century. There the sound principle to proceed upon is to let bygones be bygones. To take this century when railways have been, with two exceptions, a source of annual gain to the general revenues of the State (*s*): In the ten years 1905-06 to 1914-15 the average net gain on all State-owned railways was nearly 3½ crores of rupees (*t*). The aggregate net gain during the remaining period 1915-16 to 1923-24 amounted to Rs. 61.63 crores. If this is reduced by rupees 18½ crores which represents approximately the arrears of maintenance and renewals (*t-a*), the average annual gain to the State will be found to be rupees 4 3/4 crores. Further, the State has never set aside any portion of the earnings of railways as a depreciation reserve to meet the cost of replacing rolling stock, plant, etc. On the

reputation as an authority on railway economics: two ex-presidents of the Railway Board; the Agent of a guaranteed company; the General Manager of the Railways of the Newzealand State; representatives of the Indian legislature, Indian commercial interests and European commercial interests in India.

(*s*) Supra, Tables 8, 9 and 11, for these figures.

(*t*) The Retrenchment Committee (Inchcape) Report gave this figure; *see* para. 27.

(*t-a*) The Depreciation Fund Committee calculated that the amount of such arrears on 31st March, 1922, was nearly Rs. 22 crores. *See also* Appropriation Accounts of Railways in India for 1934-35, p. 45.

estimated life of the wasting assets for which a depreciation fund is required, it was calculated that an annual amount of approximately $1\frac{1}{2}$ per cent. of the capital at charge ought to be set aside (*u*). The amount actually expended on renewals in the years 1905-06 to 1914-15 amounted to only half per cent. of the capital then at charge (*v*). During the same period the average annual net gain to the Government amounted to 3 /4 per cent on the average capital at charge then. Therefore, if allowance is made for the fact that what should properly have been treated as working expenses was taken as net revenue, there was *really* no benefit but an annual loss of 1/4 per cent. on the capital at charge. During the second period 1915-16 to 1923-24 the amount spent on renewals was roughly 1 per cent. of the capital then at charge (*w*). If the additional 1/2 per cent. had been set aside as a depreciation reserve, the annual net gain of 3/4 per cent. would have been reduced to 1/4 per cent. Thus taking the two periods together if depreciation had been properly provided for as "correct and unimpeachable financial orthodoxy" requires (*x*), it emerges that the State railways of India should be considered to have been run neither at a loss nor at a profit to the State. It is worth remembering that during all these years

(*u*) This is the estimate of the Depreciation Fund Committee's Report, para. 46.

(*v*) Administration Report, 1923-24, p. 91, *et. seq.* Also Railway Retrenchment Committee's Report, pp. 134, 135.

(*w*) *Ibid.*

(*x*) Acworth Report, *op. cit.*, para. 67.

the companies had been receiving lakhs of pounds as their share of surplus profits when there were really no genuine profits! *And this was the case in the present century and not in the last century when the losses were obvious.*

24. *The post-war changes in Britain.*—
—After the War the British nation decided to return the railway systems to their private ownership; but not before passing a comprehensive parliamentary enactment which remodelled the conditions and outlook of the whole railway systems. The Railways Act of 1921 was divided into six important parts dealing with the Reorganisation of the Railway System, Regulation of Railways, Railway Charges, Wages and Conditions of Service, Light Railways and General respectively. The most significant as well as the most important result was that both the power and function of rate-making were taken off the shoulders of the railway companies and placed upon the Railway Rates Tribunal of experts chosen by the State (*y*). This body was given wide powers; powers of altering the classification of merchandise, of varying or cancelling through rates, instituting, modifying or cancelling existing rates, determining the reasonableness of railway requirements, and so on (*z*). The Tribunal must fix rates on a reasonable basis; it must refuse any rates or charges that discriminate against any place or person or group

(*y*) Philip Burtt, *op. cit.*, p. 109.

(*z*) Sherrington, *op. cit.*, Vol. II, p. 260.

of persons. Before 1921 statutory maximum charges were fixed by the Acts of Parliament. After the 1921 Act, the Tribunal was to decide what was meant by "reasonableness" of charges, after hearing all the circumstances of the case, and in accordance with their sense of fairness and reasonableness. The charges were to be assessed on such a basis as would, in the opinion of the Tribunal, ensure to each of the companies, with efficient and economical working and management, an annual net revenue equivalent to the net revenue of their constituent companies in 1913, together with proper allowances in respect of additional capital since invested (*a*). It is important to notice the fact that this "standard revenue" (which for the four companies aggregated to £51.3 millions) was not a *guaranteed minimum* but it was a *permitted maximum*. In other words, it merely indicated the net revenue which Parliament thought the railway companies were entitled to earn; there was no guarantee that the rates and fares will be so adjusted each year as to secure this revenue. In fact the standard has not so far been reached. (*a-a*). The objective of the Act was to secure the efficient and economical management of the railways, and the right of each company to its standard revenue was made to depend on this; it was with a view to enable the Rates Tribunal and the public to judge whether this object was being realised that the Act provided for the compilation

(*a*) Viscount Hailsham, *op. cit.*, p. 276.

(*a-a*) Till 1936 when this monograph was being written.

and publication of adequate statistics of operation (*b*).

Another important and novel feature of the Act of 1921 was the part dealing with the "Wages and Conditions of Service" in the railway companies. The restrictions placed on the powers of raising revenue are not by any means novel; but the conditions imposed with regard to wages and conditions of labour date mostly from the War period. During the War there was a steady increase in the level of prices of commodities; and the railway workers impressed upon the Government, who were then in full charge of the railway systems, the need for increasing their wages. In 1919 agreements were reached between the Railway Executive Committee on behalf of the Government and the Railway Unions; and these formed the essential frame-work of the wages system incorporated in the Act of 1921 (*c*). *The Act was thus a bold attempt at achieving that very difficult object, namely, the reconciliation and protection of the interests of the "consumer" (railway—user), the share-holder and the worker.*

25. *In America and in the Continent of Europe.*—The British Act of 1921 resembles the Transportation Act passed the previous year in the United States of America. The Inter-State Commerce Act

(*b*) Sir William Acworth, quoted by Kirkaldy and Evans, *op. cit.*, Ch. VIII.

(*c*) *Ibid.*

of 1887 was substantially modified by this Act. Rates and fares were to be established by the Inter-State Commerce Commission in such a manner that, under economical and efficient management, the railways would earn a net operating income sufficient to pay a fair return upon the value of railway properties maintained and utilised for transportation (*d*). For the fisrt two years the fair return was fixed at $5\frac{1}{2}$ per cent. to allow for improvements chargeable to capital account (*e*). Whereas the British Rates Tribunal had the revenue of 1913, together with certain additions, as "the Standard Revenue", The Inter-State Commerce Commission was directed to fix the "fair return" as a certain percentage rate on the aggregate value of the property of railway companies. In both the State had to satisfy itself about the efficiency and economy of the management of the railways by the owning companies. Further the American Act placed "public convenience and necessity" as the supreme test to judge all proposals in respect of railway extensions or abandonments. The Transportation Act was an attempt to make it impossible for a railroad either to begin operation or abandon its existing services without obtaining from the Inter-State Commerce Commission a certificate or permit evidencing the Commission's opinion that "the public con-

(*d*) W. G. Simnet—Railway Amalgamation in Great Britain (London), p. 110.

(*e*) *Ibid.*

venience and necessity" require the services of the new line or can do without the existing services (*f*). Even after obtaining such a certificate the companies were not left utterly free; because the Act vested with the Inter-State Commerce Commission the right to dictate the terms upon which the money to implement the proposal could be borrowed or other action taken (*g*).

About the same time in the leading countries of the Continent of Europe also an endeavour was made to place the Government railway systems on an independent financial basis, to work them as commercial concerns, and to remove them, partially at least, from direct political control (*h*). The French Railway Law of 1921 brought about a virtual pool of the net earnings of all the seven systems (*i*). A Common Fund was created into which any surplus earned above what was required for interest and amortisation charges was to be paid. If any railway was unable to meet out of its earnings its charges in full, it might draw on this Common Fund to meet the deficiency. This was no doubt an excellent method of assisting those railways which owing to the peculiar circumstances (geographical and others) were unable to pay out of their receipts the full interest charges. Article XVII

(*f*) J. H. Frederick and others—Regulation of Railroad Finance, p. 4, *et. seq.*

(*g*) *Ibid.*

(*h*) W. E. Simnet, *op. Cit.*, p. 103.

(*i*) For some details regarding their origin, see *supra*, sub-section (8).

of the Law of 1921 stipulated that tariffs should be increased, where necessary, to ensure a balance between the annual payments and receipts of the Joint Fund and reimbursement to the Treasury of the advances made by it to the Joint Fund (*j*). Such was the policy in France as well. That this objective, like the British Standard Revenue and the American Fair Return, was not realised is another matter.

26. *Reorganisation in India also.*—(A) In the early twenties there was thus a definite change in the policy of the Government towards the railways in several important countries. In India an expert committee pointed out the lines on which changes should be effected and also the urgent need therefor (*k*). In September, 1924, the Indian Legislative Assembly ratified the Convention separating the Railway Budget from the General Budget. The main terms of the Convention were(*l*) :—

(i) The railway finances were to be separated from the general finances of the country on the condition that the general revenues should receive an annual contribution from the railways, as a first charge on the net receipts of railways, equal to one per cent. on the capital at charge of commercial lines

(*j*) Article in the Annals of the American Academy by Pierre-Levy, September, 1936.

(*k*) *Supra,* sub-sections (21) and (22). Also the Inchcape Report. 1923.

(*l*) The terms are given as an Appendix in the Annual Administration Report of the Railway Board. The separation was urged by the Acworth Committee in paras. 74, 75. The Inchcape Committee also strongly urged it in page 61 of their Report.

(excluding capital contributed by Companies and Indian States) at the end of the penultimate financial year plus one-fifth of any surplus profits remaining after payment of this fixed sum, subject to the condition that if in any year railway revenues proved insufficient to provide this one per cent. surplus profits would not be deemed to have accrued until such deficiency had been made good. The interest on the capital at charge of, and the loss in working, strategic lines should be borne by general revenues.

(ii) Any surplus remaining after this payment to general revenues should be transferred to a railway reserve provided that if the amount so available for transfer exceeds rupees three crores in any year one-third of such excess over rupees three crores should accrue to general revenues.

(iii) The railway reserve should be used to secure the payment of the annual contribution to general revenues, to provide, if necessary, for arrears of depreciation, and for writing down and writing off capital and to strengthen the financial position of railways in order that the services rendered to the public may be improved and rates may be reduced.

(iv) The railway administration should be entitled, subject to such conditions as may be prescribed by the Government of India, to borrow temporarily from capital or from the reserves to meet revenue expenditure provided that such borrowings were repaid out of the revenue budgets of subsequent years.

(v) The arrangement should be subject to periodic revision but should be provisionally tried at least for three years.

It was thought that by means of this convention the Indian tax-payer was assured of a regular and growing contribution from his large capital investments in railways, which would go some way in relieving him of his tax burdens. And, further, it would hereafter be easier to maintain a co-ordinated, consistent and continuous financial policy and to discriminate between a temporary and permanent surplus or deficit in the railway budgets.

27. *Reorganisation in India also*: (B).—The second of the principal reforms considered to be long over-due by expert bodies and which was now effected was the institution of a Depreciation Fund (*m*). The essence of the scheme for the inception of such a Fund prepared by the Government of India was that every year an allocation should be made to the Fund (out of earnings) of a sum equal to the original cost of each wasting asset divided by its estimated life. Thus by the time the useful life of each wasting asset had expired its full original cost would have been set aside. This annual provision was to stop as soon as the original cost had been set aside whether the asset concerned had been replaced or not.

(*m*) Acworth, Inchcape and Railway Finance Committees; *supra*, sub-section (21).

28. *Results after these Reforms.*—The financial results of Indian State-owned railways after the making of these two important reforms, till the beginning of the Great World Economic Depression, should be noticed at this stage; and they are set out in Table 12. As a consequence of the two reforms two new columns, one for the allocation to the Depreciation Fund and the other for that to the Railway Reserve Fund have been added.

The first six years of the Post-Separation period were years of satisfactory financial results; during these years the railways were able to earn enough to meet the interest on their capital charge, to make suitable provision for depreciation, to contribute to a Reserve Fund (a sort of dividend equalisation fund) and to make a substantial contribution to the relief of the general tax-payer. But, that the first puffs of the economic blizzard were enough to upset the equilibrium was proved by the fact that in the last of these six years (1929-30 when the great slump just began) the contribution to general revenues could be made only by not contributing a pie to the Railway Reserve Fund and instead by making an inroad into it of over rupees two crores. The annual net gain to the State ranged between Rs. 5.23 crores and Rs. 6.78 crores.

With a view to understanding easily the situation as it developed during the period of the Depression, the amounts credited every year to the Depreciation Fund and the Railway Reserve Fund, the amounts debited to them for renewals and replace-

TABLE 12.

(In Lakhs of Rupees).

Year.	Mileage.	Capital at charge.	Gross traffic receipts.	Operating expenses.	Depreciation Fund.	Net traffic receipts.	Contribution to gen. revenues.	Transferred to Ry. Reserve	% of 5 plus 6 to 4.	% of 7 to 3.
1	2	3	4	5	6	7	8	9	10	11
1924—25	27,324	63,500	10,013	5,165	1,035	3,813	678	638	61.9	5.8
1925—26	27,430	65,400	9,894	5,299	1,067	3,528	549	379	64.3	5.2
1926—27	28,004	68,100	9.842	5,289	1,089	3,461	601	149	64.8	4 9
1927—28	28,426	71,400	10,343	5,306	1,138	3,899	628	457	62.3	5.3
1928—29	29,451	73,912	10,372	5,422	1,200	3,751	523	258	63.8	5.1
1929—30	30,878	76,998	10,270	5,559	1,259	3,452	612	—208	66.4	4.5

Compiled from the Railway Retrenchment Sub-Committee's Report pp. 134-35 and Report of the Indian Railway Committee, 1937, p. 8.

ments and for transfer to general revenues respectively, and the closing balance in each are shown in Table 13 below.

TABLE 13.

(In Lakhs of Rupees).

Year.	Credit to Depreciation Fund.	Debit to Depreciation Fund.	Closing Balance.	Credit to Reserve Fund.	Debit to Reserve Fund.	Closing Balance
1	2	3	4	5	6	7
1924—25	1,035	729	306	638	*Nil*	638
1925—26	1,067	798	575	379	*Nil*	1,017
1926—27	1,089	805	859	149	*Nil*	1,166
1927—28	1,138	1,095	907	457	*Nil*	1,623
1928—29	1,200	960	1,142	258	*Nil*	1,881
1929—30	1,259	1,176	1,225	*Nil*	208	1,673

Vide Appropriation Accounts of Railways in India for 1934-'35, Part I.

SECTION 6. THE WORLD ECONOMIC DEPRESSION AND THE RAILWAYS.

29. *An Analysis of the Results in India.*—During the six years commencing from 1930-31, when the slump was in full swing, the railways of India were in a bad financial plight. Not only could no contribution be made to the general revenues and to the Reserve Fund, but substantial sums had to be borrowed from the balances in the Reserve Fund

and in the Depreciation Fund to meet the interest charge on capital (*n*). In 1931-32 the balance in the Railway Reserve Fund was wiped out, and then began the process of taking slices out of the Depreciation Fund. Glimpses of improvement, faint though they were, were first visible in 1933-34. But it was not until 1936-37 that the Indian railways were able to earn enough to meet in full the interest charges on their capital. The financial statistics of Indian State-owned railways in the period of the slump and of the slow recovery therefrom are put down in Table 14.

It was seen that in 1929-30 the railways could make the contribution to the general revenues only by taking about rupees two crores from the Reserve Fund (*o*). From 1930-31, when the effect of the economic depression made itself seriously felt, traffic receipts began to fall of; in 1933-34 a trace of revival could be noticed and in the succeeding years the progress was kept up. However, in all these years but the last (1936-37) the net revenue earned by the railways was less than the interest they had to pay on their capital at charge; there was no question therefore of making any contribution to the owner, namely, the State; according to the Separation Convention, however, these unpaid contributions were treated as arrears, and these were accumulating. The annual deficit was met out of the

(*n*) *Infra*; Table 14.

(*o*) *Supra*; Table 12.

TABLE 14.

(In Lakhs of Rupees).

Year.	Mileage.	Capital at charge.	Gross Traffic Re-ceipts.	Opera-ting Expen-ses.	Depre-ciation Fund.	Net Traffic Re-ceipts.	Contri-bution to Gen. Re-venues.	Trans-ferred to Ry. Reserve	% of 5 plus 6 to 4	% of 7 to 3.
1	2	3	4	5	6	7	8	9	10	11
1930—31	31,197	78,300	9,510	5,439	1,307	2,764	574	—1093	70.9	3.5
1931—32	31,640	79,000	8,663	4,931	1,346	2,386	*Nil*	— 495	72.5	3.0
1932—33	31,642	78,900	8,443	4,908	1,377	2,158	*Nil*	*Nil*	73.0	2.7
1933—34	31,644	78,700	8,663	4,950	1,356	2,357	*Nil*	*Nil*	71.4	3.0
1934—35	31,636	78,700	9,020	5,027	1,372	2,621	*Nil*	*Nil*	69.9	3.3
1935—36	31,782	78,900	9,065	5,087	1,325	2,653	*Nil*	*Nil*	69.5	3.4
1936—37		78,900	9,549	5,021	1,317	6,338	*Nil*	*Nil*		

Vide Wedgwood Report, *op-cit.*, p. 8 and Appropriation Accounts of Railways in India for 1936-37.

Railway Reserve Fund, and when that was exhausted, out of the balances in the Depreciation Fund (*p*). An account of the annual allocations to this Fund, the annual withdrawals therefrom for renewals and replacements, and the closing balance in each year is presented in Table 15.

TABLE 15.

(In Lakhs of Rupees).

Year.	Allocations to the Fund.	Withdrawals from the Fund.	Balance.
1930—31	1,307	1,139	1,393
1931—32	1,346	826	1,913
1932—33	1,377	635	2,655
1933—34	1,356	808	3,203
1934—35	1,372	866	3,709
1935—36	1,325	916	4,118
1936—37	1,317	788	4,647

Appropriation Accounts for Railways in India for 1936-37, and Wedgwood Report *op. cit.*, p. 124.

Although the *nominal* balance in the Depreciation Fund was thus increasing at the rate of over rupees five crores per annum, the real balance was much less because of the borrowings wherefrom to meet the deficit in the working of the railways which began in 1931-32 and ended only in 1936-37. The following Table shows the amounts that were bor-

(*p*) *Infra* Table 16 (Except in the year 1936-37 when there was no deficit).

rowed from the Depreciation Fund to enable the railways to pay their interest charges in full, and the unpaid contributions to general revenues from year to year.

TABLE 16.

(In Lakhs of Rupees).

Year.	Loans from Depreciation Fund.	Unpaid contributions to General Revenues.
1931—32 ..	425	539
1932—33 ..	1,023	523
1933—34 ..	796	521
1934—35 ..	506	504
1935—36 ..	399	499
1936—37 ..	−121	491
Total for six years ..	3,028	3,074

Appropriation Accounts of Railways in India for 1935-37, p. 2.

The effect on the Depreciation Fund was that whereas the nominal credit balance was Rs. 46.47 Crores, the actual credit balance was no more than Rs. 16.19 Crores. These two amounts, Rs. 30.28 and Rs. 30.74 Crores were, under the Separation Convention, liabilities of railways to be met in subsequent years, before they could begin accumulating reserves again. In other words, the financial results of Indian State railways fell short by no less than Rs. 61 crores of the high expectations raised at the time of the separation—expectations which experi-

ence in the first six years justified. In October 1937 the Indian Legislative Assembly accepted the Government motion regarding a moratorium in respect of these two debts. On the 31st March, 1937, it was seen, that the railways were due to pay:—

(a) Rs. 30 1/4 crores to their Depreciation Fund to bring it to the level of its "nominal" balance and

(b) Rs. 30 3/4 crores of unpaid contributions to general revenues.

(a) was to take precedence of (b). (*q*).

By releasing the railways of the obligations to repay the dues, the Government of India were enabled to appropriate railway surpluses to the general revenues in the immediate future, and thereby to augment their funds from which they might help the Provinces according to the Niemeyer Award (*r*). Thus the decision that railway revenues should not be liable before April 1, 1940, or before the fixation under the Government of India Act of the sum therein referred to, whichever was earlier, to repay to the Depreciation Fund, was one of the comparatively rare ones on which the Government as well as popular opinion in the Provinces and the Centre were in complete agreement (*s*).

30. *The merits of British Railways.*—In India the serious financial difficulties of the railways dur-

(*q*) Under the 1924 Separation Convention.

(*r*) Report of Sir Otto Niemeyer, Para. 30.

(*s*) The Hindu (Madras)—Leader, 8-10-1937.

ing the period 1930-36 were mainly due to the economic depression, the abnormally low level of prices and the decreased purchasing power of the people. The competition of road motor transport was only an important contributory cause (*t*). In Britain, on the other hand, the main and the root cause of the railways failing to earn their Standard Revenue was the competition and the absence of coordination with the road carriers (*u*). As in the case of Indian railways, the British companies too made very strenuous and successful endeavours, as Table 17 would show, to reduce the working expenditure during the difficult period from 1930 onwards. The peak figure as far as the net revenue is concerned was about £ 49 millions which was reached in 1929; and the nadir was touched in 1932 when the net revenue was as low as £ 27 millions.

In Table 17 below the aggregate net revenue of all the (main line) railways of Britain since 1929 together with the average rates of interest or dividend paid per cent. of capital receipts and the percentage of net traffic receipts to capital at charge of Indian State owned railways are given.

If, for the moment, the various differences between the methods of calculation and significance of "net revenue" in the two countries, which make

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(*t*) The Financial Commissioner in Review of the Appropriation Accounts of Railways in India for 1931-32, p. 7.

(*u*) W. J. Stevens, The Future of British Railways: Review of the Railway Gazette, (London), dated 21-1-1938, p. 105.

TABLE 17.

Year.	Net revenue £. (100 omitted).	Average rate of dividend % of capital receipts.	Corresponding Indian return.
1929	48,815	4.08	4.5
1930	38,521	3.64	3.5
1931	34,163	3.16	3.0
1932	27,194	2.59	2.7
1933	29,589	2.76	3.0
1934	32,255	2.97	3.3
1935	33,695	3.08	3.4
	Average for seven years ..	3.18	3.34

comparison extraordinarily difficult, are overlooked, it will be seen that during the early, middle and later periods of the Depression the railways of the two countries yielded nearly the same return, with the average being slightly in India's favour. These results of the British railways do not indicate prosperity, but they prove that there has been a steady recovery from the extremely low level of 1932. These are average returns reflecting all variations. The following figures bear ample testimony to the very efficient way in which the British railways have reduced their working expenditure since 1929 when the economic blizzard just began. The working expenditure of the four groups of British railways in 1935 was 13.32 per cent. below the level of 1929. The

trend has been as follows:—

Decrease in working expenditure in	£. in Millions.	Percentage of 1929.
1930 ..	3.6	2.49
1931 ..	10.4	7.27
1932 ..	7.2	5.07
1933 ..	2.0	1.42
Total ..	23 2	16.25
Increase in 1934 ..	3.6	2.50
	19.6	13 75
„ 1935 ..	0.6	0.43
Total decrease in 1935 as compared with 1929 ..	19.0	13.32

The figures from The Annals, Article by Sir J. Stamp, September, 1936.

"Based on the level of efficiency in 1928, the total operating costs in 1937 would have amounted to £.148.3 millions, compared with £.133.3 millions. In the course of 10 years, therefore, the railways have effected economies which at the present time appear to amount to £.15 millions per annum". Article by E. J. Broster in Economic Journal, 1938.

From the study of the salient features of British railway development the following conclusions may be said to emerge:—

(a) Great Britain has the benefit of a fairly efficient, adequate and remunerative system of railways, without ever having imposed, on this account, any financial burden on the tax payer (*a*).

(*a*) This is unique among the major railway systems of the world.

(b) The British Railways have contributed very substantial sums to the national Exchequer by way of rates, duties and taxes (*b*).

(c) Notwithstanding (a) and (b) they have been, with rare exceptions, a source of profit to the investors in its capital. Small wonder, competent critics have felt that "the system or systems of British railways were until quite recent years the subject of national pride and foreign envy" (*c*). Many years ago Prof. Marshall said that there were in Great Britain "a greater number of trains, and especially of fast trains, than are to be found in any other area of equal size in the world. Nowhere else are there so many pairs of points between which the passenger has a large choice of the time of the day at which he will start on his journey, and yet travel at an average rate exceeding 40 miles an hour. No where else are small packages collected and delivered over so many considerable distances within the twenty four hours" (*d*). Every year, since the last nine years, The Railway Rates Tribunal, in the judgment on the annual review of railway charges, have categorically stated that these railways were efficiently managed. For instance, in the 1937 judgment they said "........In regard to no company was there any suggestion of lack of efficiency or economy in the management.....We are of opinion that the

(*b*) *Infra* Chapter IV.

(*c*) Kirkaldy and Evans, *op. cit.*, p. 217.

(*d*) W. V. Wood and Sir J. Stamp; "Railways"—Quotation from Professor Marshall.

deficiency in the case of each of the amalgamated companies was not due to lack of efficiency or economy in the management'' (*e*). Has not the absence of such an independent body of experts to annually review not only the charges levied but also the efficiency and economy of management coupled with the lack of a popularly elected and responsible Government at the Centre led to vague fears about the inefficiency and uneconomic nature of the management of Indian State-owned railways? (*f*).

31. *Recent American Railway Policy.*—Like many things American, the railway system of the United States of America has become a vast organisation. It is miles ahead of the railways of any other country in the world in investment, traffic, earnings, etc. Its total mileage is over ten times that of the railways of Britain (*g*). It is perhaps a little misleading to talk of *the* railway system of the United States of America, because it is not one homogeneous .t; it consists of 144 Class I, 206 Class II and 263 ıss III railroads, differing in size, amount and ality of equipment, etc. (*h*). Earlier in these stus mention was made of the development of the vernment's policy towards the railways of the

(*e*) Modern Transport, (London), 12-3-1938; p. 7.

(*f*) Wedgwood Report, *op. cit.*, para. 190; and Acworth Report, *cit.*, paras. 149 and 150.

(*g*) In 1922 there were 249, 231 miles in the U.S.A. as against 90 in 1925 in Britain.

(*h*) The Annals, *op. cit.*, Article XV.

United States of America until 1920, when the comprehensive Transportation Act was passed. It was seen that in that country, as in Britain, the fact that the railways were owned by private companies did not deter the State, as representing not only the share-holders but also the other sections of the community, from proceeding, step by step, to ensure their operation and maintenance in the interests of the railway users also. Two events of recent years are noteworthy as indicating definitely *the changes from the policy of intervention only in cases of absolute necessity (for safety, for instance) to one of rigorous, minute and continued control for using the railways, as far as possible without much prejudice to the share-holders, as instruments of general social welfare.* The first is the Hoch-Smith Resolution (passed by the House of Representatives on June 7, 1924, and by the Senate on January 27, 1925) which directed the Inter-State Commerce Commission, with due regard "to the maintenance of an adequate system of transportation, to investigate and effect with the least practicable delay such lawful changes in the rate structure of the country as will permit the freedom of movement by common carriers of the products of agriculture......including life-stock, at the lowest possible rates compatible with the maintenance of adequate transportation service (*i*)". The second is the passing of the Emergency Railroad Transportation Act in 1933 under which the temporary office of the Federal Co-ordinator of

(*i*) Sherrington, *op. cit.*, Vol. II, p. 124.

Transportation was created. He was given ample powers of general supervision of measures designed to avoid unnecessary duplications of service and facilities; to permit, where possible, joint use of terminals and track facilities; to avoid waste and needless expense; to improve credit; to attempt reorganisation of finance with a view to reducing fixed charges; and to study other problems concerning transportation (*j*). Further, under this Act the principle of a "Fair Return" which, since the passing of the Act of 1920, was the basis on which the Inter-State Commerce Commission was expected to regulate rates and fares, was given up. The reason was that that original scheme of fair return was tried for twelve years and was found wanting. Whereas the British Rates Tribunal had the revenue of 1913, together with certain additions as the "Standard Revenue", the American State fixed the "Fair Return" as a certain percentage rate ($5\frac{3}{4}$ per cent.) on the aggregate value of the property of railway companies. Barring a few comparatively small railway companies, most of the American railways could not, by a considerable margin, earn this $5\frac{3}{4}$ per cent. These small companies were required by the Government, under what is known as the "Recapture" provision of the Transportation Act of 1920, to hand over their surplus to them. Some of them raised legal objections to the basis on which the return was calculated; a few docile companies paid over their surpluses. On the whole the Gov-

(*j*) Bureau of Railway Economics, Washington, No. 60 of Special Series, p. 141.

ernment found that the whole arrangement of the Fair Return system was unsatisfactory, scrapped it completely, returned the amounts paid over to the companies, and gave the following new instructions to the Inter-State Commerce Commission in regard to the thorny yet vital question of rates and fares (*k*):—

> "In the exercise of its power to prescribe just and reasonable rates the Commission shall give due consideration, among other factors, to the effect of rates on the movement of traffic; to the need, in the public interest, of adequate and efficient transportation service at the lowest cost consistent with the furnishing of such service; and to the need of revenue sufficient to enable the carriers, under honest, economical and efficient management, to provide such service" (*l*).

This is the present position of the system or systems of railways in the United States. The scrutiny of financial results will make it clear that this largest national railway system in the world, moving every year a stupendous volume of goods and passenger traffic—at rates which if not the lowest per mile per ton or passenger in the world, will be accepted as extremely reasonable, has been yielding a return on the capital which compares quite favourably with that of the systems in most other countries.

32. *German Railway, Sui Generis.*—The main trend that was noticeable in the surveys of Indian, British and American railways, namely, the desire of the State to effect reconciliation of the interests

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(*k*) *Ibid.*

(*l*) The close resemblance with the new policy of the Government of India under the 1935 Act will be noticed:—*Infra.*

of the owner and the user, can be seen in the post-war history of the German railways also. The fusion of the different State-owned railways of Germany into a single system under the control and management of the Central Government took place on the first of April, 1920. The finances of Germany in the post-war period were in a state of utter chaos, a chief manifestation of which was the violent fluctations in the exchange value of the German currency. The Reichsbahn, as the centralised company was called, was reorganised into a well-knit commercially organised concern, on the 12th of February, 1924 (*m*). The stupendous inflation of the German currency of those years had the effect of wiping out the capital charges of the Reichsbahn. It was at this time that the Dawes Committee was considering the problem of how much and how best can Germany be made to pay reparations to the Allies. There was no more valuable asset of the Reich than the Reichsbahn. How best to make use of this asset in order to make the payment of reparation fairly certain was the problem for the solution of which the expert advice of Sir William Acworth was sought by the Dawes Committee. The upshot of all these confabulations was the creation, in October, 1924, of the German State Railway Company under terms which stipulated that a substantial portion of the State's reparation payments should be made from the Company's net revenue and from the transport tax on its traffic. Six years

(*m*) The full name was "The Deutsche Reichsbahn Geselschaft" meaning German National Railroad Company.

later the Dawes plan came to an end, and the Reichsbahn once more became a Reich railway, although its budget was kept separate from the general budget. Early in 1937 Hitler who did not want even a semblance of an imperium in imperio, placed the concern under the sole and undivided authority of the German Reich, and to-day it is part of the German Ministry of Transport and goes by the name of "Deutsche Reichsbahn".

Such, in the briefest outline, is the recent history of railways in Germany. There is a thread—that runs through all these stages in the career of railway transport in Germany. There is no other major country in the world where the Government has so continuously and so successfully used the railways as a means for the economic development of the country—now helping this industry, at other times other industries, taking in some men mainly in order to mitigate the hardships of unemployment, and so on, and at the same time not utterly disregarding the "Cost of Service" and other commercial considerations. Witness, for instance, the provision even in the Law of Herr Hitler's regime (dated February 10, 1937) for the preservation of the financial structure of the railways and the complete separation of their accounts from those of the State. "The needs of the Government, for example by specially low rates, to galvanise certain industries or certain districts, have of course to be met; yet, no effort should be spared in order to secure the payment of interest and other financial charges of the railways

out of their own resources''—such is their objective (*o*).

It may be of interest to notice a few of the ways in which the railways of Germany have stood by their Government in their valiant efforts to stimulate national recovery from the slough of the depression. Says the Annual Report of the Deutsche Reichsbahn:—''We have made it our endeavour to assist German industry by means of numerous individual tariff reductions and by offering other reliefs so far as was *feasible from the financial point of view.* (*p*) .... Mention should be made of the special privileges extended to agriculture and numerous other branches of industry; and the efforts made by the company to help distressed areas and to encourage the export trade by means of tariff measures'' (*q*). The Report for 1936 makes special mention of the new exceptional rates granted with a view to promote ''the utilisation of domestic in place of foreign raw materials and thus reduce foreign currency payments'' (*r*). Railways in Germany are regarded as an instrument for providing employment, not only by granting special reduced rates to help employment schemes, but by placing orders for materials and rolling stock and undertaking works involving direct employment beyond commercial re-

(*o*) Report for 1932 of Deutsche Reichsbahn Geselschaft, p. 7.

(*p*) Italics the writer's, and not in the Report.

(*q*) German Railway Report for 1932, *op. cit.*, p. 7.

(*r*) The Railway Gazette, (London), 18-6-1937, p. 1163.

quirements. Some 62,000 temporary summer workers were given employment on these grounds throughout the winter of 1933; 30,000 in 1934; and 15,000 in 1935 (*s*). Again, the Report for 1931 says: "......In summer 1931, at the urgent request of the Government, we had to set up a programme of expenditure in order to provide work in relief of unemployment amounting to Reich Mark 100,000,000, and to this sum the Government contributed R M 60,000,000". One searches in vain for such statements in the railway administration reports of countries like India. The German railways are *sui generis* in this respect—of perfect coordination with the efforts of the Government in promoting the commonweal.

It is an axiom of railway transportation that much of a railway's expenditure is independent of the amount of traffic it carries. In India, Great Britain, the United States of America, and Germany the gross traffic receipts reached a high figure in 1929 and from that year began to shrink very rapidly. Every nerve was strained to reduce the working expenditure during this period of falling receipts. The German Report for 1931 proudly says:"......we succeeded in cutting down our expenditure, apart from the Reparation charges, by 11 per cent. compared with 1930, and by 19 per cent. as compared with 1921 (*t*)."

(*s*) The Railway Gazette, (London), 18-6-1937.

(*t*) The German Railways Report for 1931, p. 3.

On the other hand, during the same period of depression the Indian railways did not make the same curtailment of their expenditure. Here is Table No. 18 which shows the reduction in expenditure of the Indian railways from year to year since 1929 and the percentage reduction in each year as compared with 1929—the last year of prosperity.

TABLE 18.

(In Lakhs of Rupees).

Year.	Expenditure (including Depreciation).	% of reduction as compared with 1929.
1929—30 ..	68,18	....
1930—31 ..	67,46	1.05
1931—32 ..	62,77	7.93
1932—33 ..	62,85	7.81
1933—34 ..	63,06	7.5
1934—35 ..	63,99	6.02
1935—36 ..	64,12	5.95

Thus the reductions made in Indian railway working expenditure, in order to meet the crisis of the economic depression, fall into insignificance before the achievements in this direction of the German Railways. The contrast between the two systems becomes even more striking when we take into account the fact that "a number of items of expenditure are withheld from the influence of the German State Railway Company. That applies in particular to staff expenditure which amounts to about 2,551 million R M, that is, to about 71 per cent.

of the total expenditure. Under the Railway Law the salary conditions of the Company have to be assimilated to those of the Reich, with the effect that the company is hampered in effecting independent savings in that sphere of its service (*u*)." *Yet*, in 1931, their working expenditure was less than that of 1929 by 19 per cent.! In India the reduction was 7.93 per cent. It perhaps reflects no discredit on Indian railways while showing how heroic have been the economies made by the Deutsche Reichsbahn.

(*u*) The German Railway's Report for 1931, p. 87.

CHAPTER III.

THE THEORY OF FAIR RETURN AS APPLIED TO STATE RAILWAYS: AND CONCLUSIONS THAT EMERGE.

CHAPTER III.

THE THEORY OF FAIR RETURN AS APPLIED TO STATE RAILWAYS: AND CONCLUSIONS THAT EMERGE.

SECTION 7. MAIN LINES OF STATE REGULATION.

33. *Regulation indispensable.*—Some generations ago there appears to have been a rather fatuous discussion about "Productive" and "Unproductive" labour. The work done by merchants and carriers used to be regarded as unproductive because they did not "produce" anything. This line of argument neither deserved nor survived scrutiny; for, the moment it was pointed out that *all* production is *only* production of utilities, the distinction that was sought to be drawn between the labour of a manufacturer or of an agriculturist and that of a man engaged in trade or transportation evaporated. Everyone now realises the tremendous influence that railways exert on national well-being. Enormous aggregations of population have come to depend upon the railways for the regular, cheap and speedy transport of food stuffs; and again the railways are the chief agency charged with the duty of efficient movement of the raw materials and finished products of industry and agriculture. Modern economic organi-

sation is itself, to considerable degree, the result of the development of railroads; and many of its characteristic feature like large-scale production, division of labour and localisation of industries are vitally connected with the existence of efficient railways.

It was realised by most countries, in the first few decades of railway operation, that here was an agency with stupendous powers and potentialities for good as well as evil. It was indeed a very tough problem to hammer out a policy that would result in the retention of the good and the elimination of the evil. That was not a socialistic age. Reformers and legislators had to proceed, step by step, with due circumspection; otherwise the tide of "laissez faire" would have swallowed them up. It was not at such a low ebb in the first half of the last century (precisely the period when the railways were first being built) as it is to-day. However, it was only a question of time; every country realised that either the State should themselves take up the railways and work them in national interests or regulate and control the private railway companies in such a strict, minute and vigilant manner that they would aid social advancement, without themselves going into bankruptcy. A rapid survey of the steps by which India, England and the United States of America have attempted to achieve this objective has been made in the first and second chapters.

34. *Safety, Publicity and Equality.*—It is clear from those accounts that in every country the State, acting on behalf of the whole people, wants to ensure

that the railways are *safe* (*a*). The British Parliament, for instance, has delegated to the Ministry of Transport the duty of seeing that the private railway companies there conform to certain requirements of safety. The arrangements for signalling, the engines and the coaches, the stations and sidings and the road bed must all attain a standard acceptable to the State. Parliament, in the interests of public safety, even interferes with the number of hours worked by the employees of railways (*b*).

Modern Governments have learned that important public utilities have either to be Government monopolies or private monopolies. It is a sphere where competition is not only suicidal but anti-social, because of the wastefulness of duplication of fixed costs. It is an industry where, up till a pretty advanced stage, the economies of large-scale production and of the law of increasing returns can be and ought to be realised. The State, therefore, has endeavoured to bring about co-operation and harmony in the place of a maze of competing companies.

The modern State wishes to place "Public convenience and necessity" before the interests of the share-holders. The latter may find it advantageous to abandon a railroad when it ceases to "pay". But the modern State insists on their obtaining its permission before abandoning it. It recognises that

(*a*) Sections 18 and 19 of the Indian Railways Act, 1890.

(*b*) Kirkaldy and Evans, *op. cit.*, p. 144. A forceful reminder of this aspect of Governmental control is provided by Justice Thom's Findings on the Bhita disaster in the East Indian Railway.

it has a duty to sections of people other than those railway stock-holders. It has to protect the people "who have gone out along the railroad, practically at the invitation of the State, and invested in lands and industrial enterprises, the value of which is dependent upon the continued operation of the railroad (*c*)." As a result of the Transportation Act of 1920 it is no longer possible for a railroad, in the United States, either to begin operation or abandon its existing services without obtaining from the Inter-State Commerce Commission a certificate or permit evidencing the Commission's opinion that "the public convenience and necessity" require the services of the new line or can do without the existing services.

Early experience of railway operation in many countries, more particularly in America, has proved that the pursuit of private profits by companies is not such a matter of "enlightened self-interest" as the earlier economists believed. The railways soon became conscious of their giant strength and some of them began to use it like a giant, practising local as well as personal "discrimination". It was seen that every Government has taken vigorous steps to prevent this notorious bane of monopolies, namely, discrimination.

Another point that deserves to be mentioned in connection with the way in which the State wants the railways to be worked (by itself if it is State-owned and operated) is the publicity that is sought to be

(*c*) J. H. Frederick and others, *op. cit.*, p. 4.

given to railway statistics. The modern Government does not want the railway companies to adopt a hush-hush policy. Neither does it want them to hide their light under a bushel. By no means is it merely an affair of the share-holders. It concerns the public most intimately. If they are inefficient, let the State know; if they are efficient, then also the public may know it. Can further economies be made and can rates and fares be reduced? The State wants to answer similar questions, and the railways must readily supply all the data necessary. For instance, it was seen that there are some six hundred companies in the United States of America; they are all "required to make weekly, monthly and annual reports, and special returns without number, of the minutiae of operations and expenses, down to man—hours, pounds of coal, and gallons of oil (*d*)." Conditions in Britain are nearly the same. Speaking about the British Railways Act of 1921 the late Sir William Acworth said, *inter alia*, "........ the Act provides for the compilation and publication of adequate statistics of operation, in order that the Rates Tribunal and the *public* may be in a position to judge whether the management of the railways under the new conditions is carried on with that efficiency and economy which is the expressed object of the Act to secure and on which the right of each company to its standard revenue is made to depend (*e*)."

(*d*) Slason Thompson's Railway Statistics of the U.S.A., p. 28.

(*e*) Quoted by Kirkaldy and Evans, *op. cit.*, Ch. VIII. *Italics* the writer's.

35. *The Problem of Railway Rates.*—The most vital problem is the principles on which the rates and fares of railways are to be determined. There is no country in the world to-day where the state "non-intervenes" so far as this fundamental question is concerned. *Absolutely regardless of the fact of State or Company ownership,* the modern Government says to the railways, "no, you shall not be worked on entirely commercial or business principles in the sense of obtaining maximum monopoly net revenue". It may be possible for a monopoly to obtain a large profit from a minimum of business combined with high charges; it is quite conceivable that the same profit may be obtained from increasing the volume of the business coupled with comparatively low rates. Parliament decided that as far as possible the latter method should prevail in connection with the railway companies. No, the modern State goes further. It was noticed that even in 1887 when the United States established the Inter-State Commerce Commission the right of the State to order the companies to fix reasonable maximum rates was assumed. The British Railway Rates Tribunal was given full power to fix (and later alter, if necessary) such rates and fares as will enable each railway company to earn a "standard revenue"—"fair", both to the company and to the railway users. The Transportation Act of 1920 of the United States of America had the same object. The essential difference was pointed out that instead of taking, as was the case in England, the net revenue of an earlier year (1913) as the basis for

calculating the "fair return", the American Act stipulated that rates were to be so fixed that the railway companies would be able to earn a certain percentage on the aggregate value of their property. It was mentioned that this had to be abandoned and that under President Roosevelt's regime new instructions were given to the Inter-State Commerce Commission which are, to reiterate, as follows:—

"In the exercise of its power to prescribe *just* and *reasonable* rates the Commission shall give due consideration, among other factors, to the effect of rates on the movement of traffic; to the need, *in the public interest*, of adequate and efficient transportation service, at the *lowest* cost consistent with the furnishing of such service; and to the need of revenue sufficient to enable the carriers, under honest, efficient and economical management, to provide such a service."

Section 8. Synthesis of current views on railway Returns.

36. *Present identity of German, French and Indian policy.*—This is typical of the age in which we live. It does not seem to matter whether the railways are company-owned or State-owned—so far as this fundamental question is concerned, the modern attitude is the same. The consensus of modern opinion may be said to regard the railways neither as a milch-cow to be utilised for relieving the burdens of other classes, nor as a mill-stone round the neck of the general tax-payer. To be operated on commercial and business principles?—Yes, but only within limits, only consistent with public interest. To be operated in public interest?—Yes, but with

(*Italics* the writer's).

due regard to enabling the carriers to provide such service "under efficient, honest and economical management". It appears to be a fairly correct summing up to say that the State in our age is attempting, in so far as is practicable, to harmoniously blend the interests of the general public with those of the people who have invested in railways, —(interests which are not *a priori or* necessarily incompatible but which generally conflict in practice) —so that the country may have the maximum of efficiency, economy and adequacy in this most important branch of the transportation services. This may be said to be the attitude of the modern Government towards the railways, irrespective of its being totalitarian or democratic. For instance, clause 34 of the Law incorporating the German Reichsbhan says: "the rights of supervision and control of the operating and tariffs of the railways reserved to the Government by the law shall never be so exercised by the Government as to prevent the company earning a net revenue adequate to secure the regular payment of interest and sinking fund on the bonds and the preference shares". The aim of railway policy *in Germany under Herr Hitler as well as in the previous regimes has been not to earn the maximum net revenue, but to assist the Government in its essential functions—which may be compendiously described as the achievement of maximum social welfare—even by granting exceptionally low rates to assist specially selected industries and areas...But, commercial principles have also been kept in mind; because efforts have been made to see that the interest*

and other financial charges of the railways are met out of the railway's own resources. For instance, the surplus of revenue over expenditure in 1936 was R M 471,817,961; of these R M 391,253,729 were consumed by contributions to Reich Funds, interest, loan and repayment charges (*f*), depreciation and redemption reserves, leaving R M 121,403,780 available, of which R M 75,67,000 was distributed as preference share dividend at 7 per cent. and the remainder placed to statutory reserves (*g*).

The same tendency can be noticed in France: "The idea that a railway constitutes above all a public utility has, in effect, spread generally throughout France.....Bound strictly to the responsibility to transport, that is, to guaranteeing all transportation, whether it be regular or occasional, in bulk or in lots, remunerative or not, and so forth, the systems maintained at all times permanent plant, rolling stock and personnel necessary to take care, within certain time limits, of all the passenger and freight traffic which presents itself". These words written some years ago by the Engineer-in-chief for the Administration of Government Railways, Paris, admirably summarised the attitude of the French State towards the railways (*h*). It was noticed that,

(*f*) These may be regarded as the counterpart of the obligations of a company-owned railway.

(*g*) The Railway Gazette, London, 21-5-1937, p. 981.

(*h*) The Annals, *op. cit.*, Article by Mr. Pierre-Levy, September, 1936, p. 184.

unlike Britain and just like most European countries, the French State had either built and operated its own railways or had asked private companies to run them, giving them financial assistance and guaranteeing interest. Perhaps because of this, while the control of the British Government over the British railways and their rates policy is quite strict and comprehensive, it pales into obscurity when compared with the conditions that prevailed in France (*i*). There "the Railway Manager has to submit to the manipulation of his rate so as to favour national, commercial interest. And frequently these interests are summed up in the framing of specially low export rates" (*j*). Yet, it must not be forgotten that the Convention entered into in 1921 laid down that rates should be so framed as to make the Common Fund balance (*k*). That this objective *has not been realised is another matter. It would appear that France also definitely came to adopt the object of railway operation in most modern countries—namely, that, while rates may be used as instruments of policy, they should also aim at making*

(*i*) Since writing the above, it has been announced that France has decided to *completely* nationalise the railways. The French National Railways Company took over the seven principal railway systems of France to which reference has been made above.

(*j*) Kirkaldy and Evans, *op. cit.*, p. 163. These are in addition to the usual laws for safety, etc., and against undue preference, etc.

(*k*) Article 17 of the Convention stipulates that tariffs shall be increased where necessary to ensure a balance between the annual payments and receipts of the joint fund and reimbursement to the Treasury of advances made by it to the joint fund.

the systems pay their way, without being a drag on the general taxpayer.

From the financial history of Indian railways sketched earlier, it emerges that this has been, in recent times, the policy of the Government of India also. Here as elsewhere, the actual results of the working of railways may have been, in many years, very different from this policy; but the *aim* has been, definitely since the Acworth Report, that they should be worked on commercial lines. For instance, it is expressly stated in the latest Constitution Act for India that:—"The Federal Railway Authority in discharging their function under the Act shall act on business principles, due regard being had by them to the interests of agriculture, industry and commerce, and the general public, and in particular shall make proper provision for meeting out of their receipts on revenue account all expenditure to which such receipts are applicable under the provisions of this part of the Act" (*l*).

37. *Nationalisation not inevitable to secure this aim.*—Even the outline survey that was made of the financial results of and main developments in the railway systems of five countries substantiates our main conclusion. Government control of private companies has, especially of the world's biggest railway systems in the United States, become so strict and comprehensive that it is perhaps no exaggeration to say that, so far as the fundamental objec-

(*l*) Section 183 (1) of the Government of India Act, 1935.

tive is concerned, it is the same for both the State and private railways—namely, the greatest good of the greatest number, within certain limits. It was noticed how the modern State is steadily encroaching upon rights—considered inviolable in the past—of private companies so that they may also work not mainly in the interests of their share-holders but in the interests of the community as a whole. Experience has shown that it is perhaps not true to say that the only way of securing this object of maximum social welfare is by converting all private railways into State railways. If a generalisation is at all possible, it would appear that *the present tendency is for public opinion to demand that State railways should be worked on business or commercial lines and that private railways should work primarily qua public utility concerns. Thus, there is absolutely no yawning gap between the policy of a company railway and that of a State railway in respect of things that really matter* like rates and fares. Commissioner J. B. Eastman, the Co-ordinator of the American railways, after an elaborate enquiry of the railroads of the major countries of the world, came to the conclusion that whilst public ownership and operation has its evils it has also its merits (*m*). There does not appear to be any tendency to abandon it in favour of private companies. *At the same time it is also true that nationalisation has often been adopted not as a matter of principle*

(*m*) Co-ordinator's Report, 1932; this conclusion was arrived at after his staff "canvassed the available literature on the railroads of other countries".

but out of the exigencies of the situation (*n*). Military expediency, the incapacity of the private companies to continue working, the reluctance to rely on foreign capital or other considerations like this have often led to State ownership and operation. *State-controlled railways,* therefore, have no different objective to-day from that of the *State-owned railways.* To take another example, the railways of South Africa are State-owned-and-managed. But the South Africa Act itself lays down that "the railways, ports and harbours of the Union shall be administered on *business principles,* due regard being had to agricultural and industrial development within the Union, and promotion by means of cheap transport, of the settlement of an agricultural and industrial population in the inland provinces of the Union (*o*)". How closely does this provision resemble the new instructions by the State to the American Inter-State Commerce Commission and the railway policy of India as evidenced in the latest Act!.

The conclusion would appear to be that if the railways are State-owned they have to guard against the tendency to use them as a fiscal expedient (by means of putting up the rates and fares high above the "cost") or as a concern to be subsidised and pampered. If, on the other hand, they are owned by private companies the public has to guard against their being used as mere profit-making concerns. In the

(*n*) Indian Railways, for instance.

(*o*) Section 127 of the South Africa Act.

Italics the writer's.

course of a judgment The Supreme Court of the United States of America said "it has never been considered a matter of importance that the railroad was built by the agency of a private corporation. No matter who is the agent, the function performed is that of the State. Though the ownership is private, the use is public (*p*)". Again, a writer who thinks that Government regulation of company railways in the United States of America has gone too far says thus. It is worth quoting because it shows how in the modern world there is so little difference between Government *ownership* and Government *control* of railways—at least so far as the primary aim is concerned. "The original purpose which was to protect the public against exactions and harmful practices through statutory prohibitions administered by a Commission has gradually given way to an invasion by the Government of the realm of private management and has developed into a vast system of laws and orders, formulas and theories, rulings and interpretations—contradictory, arbitrary and oppressive—which rides like an old man of the sea upon the back of a great industry (*q*)". "Public regulation of a privately owned and operated industry, reaching deeply into such matters as rates, service, capitalisation, accounting, extensions and abandonments, mergers and consolidations, is a hybrid arrangement. When an industry becomes so public

(*p*) Olcott *v.* Supervisors, 16, Wall, 678, 394, quoted by J. H. Frederick and others, *op. cit.*, p. 4.

(*q*) The Annals, *op. cit.*, Article by H. C. Taylor, p. 49.

in character that such intimate regulation of its affairs becomes necessary, *in strict logic* it would seem that it should cease to masquerade as a private industry and that the Government should assume complete responsibility, financial and otherwise (r)''. However, apart from ''strict logic'', it may be argued that, if the objective of the State can be secured, and if the company thinks it worth while to carry on even under this regulation, then the State may not care to *buy* the railways. In fact, although the Federal Co-ordinator felt like this he did not feel justified, under the then financial circumstances of the United States, in recommending the nationalisation of their railways.

SECTION 9. THE DIFFICULTIES IN THE CORRECT INTERPRETATION OF THE CONCEPT OF THE FAIR RETURN.

38. *Interests to be reconciled, a square.*—There is, however, one point of difference between the company railways and the State railways. A company railway must be so worked as to meet its expenses and interest on investment or go into bankruptcy. If the payment of interest were postponed indefinitely it would be impossible to raise any additional capital which may become necessary. But even this difference is, at any rate in the long run, illusory. The Rates Tribunal, if it is satisfied that the company's

(r) Federal Co-ordinator, J. B. Eastman's Report, *op. cit.* *Italics* the writer's.

management is economical and efficient and that yet no interest could be paid, would permit an increase of rates and fares. For example, after the War the British railway companies found it extremely difficult to earn a reasonable return on their capital. "If they had not been permitted to make large increases in their charges for passenger and freight traffic, it would have been impossible to resist virtual, if not actual, bankruptcy with reconstruction and drastic cutting down of capital (*s*)". But the realistic Government of Britain sanctioned the increase in charges and saved the situation, for who can contemplate with equanimity the bankruptcy of such a vital concern as the railway transport of a country? On the other hand, neither will a State railway be allowed to work without earning the interest on its capital, over a long period. Even this difference is thus more apparent than real.

There are really four interests to be considered, reconciled and promoted. First, the *public interest*, which is vitally concerned with the existence of the most efficient railway system for general economic development and the amenities, not to speak of the administrative and military value; then, there is the interest of the provider of transport, whether it is a corporation or a Government; thirdly, there is the interest of the user. And finally the employees in those vast organisations must not be ignored. There are four responsibilities, of the railways to the community, of the community to the railway owner, of

(*s*) Kirkaldy and Evans, *op. cit.*, p. 107.

the employees, and of both these to the railway users. The wisest course seems to be to regard these as a square where one side cannot and ought not to gain an absolute advantage over the other three (*t*).

39. *The difficulty of making comparisons.*—We are led on to the question as to what is the significance of the fair return when the provider of transport happens to be the State itself. The State has to pay interest on the loans raised for building or acquiring railways. The actual net profit cannot be arrived at until these interest charges are deducted from the surplus of receipts over working expenses. It is thus seen that a State railway (like India's) differs from a company railway (like Britain's) in so far as the capital of the former is tantamount to loans or debenture stock on which interest must necessarily be paid out of earnings; but in the case of the latter, the ordinary share-holders would get anything only after the debenture-holders have been paid their stipulated rate of interest. Thus the State railway surplus out of which interest has yet to be paid cannot be considered as being similar to the amount distributed as dividends by a company railway, after meeting interest on loans. This can be compared only to the net "contribution" or "surplus" which a State railway is able to make for being devoted to the general purposes of the Government (*u*). In

(*t*) Sherrington speaks of a triangle of responsibilities.

(*u*) Quoted from the Financial Times by E. A. Pratt—The case against Railway nationalisation, *op. cit.*, p. 46.

fact, this "surplus" from the Prussian State Railways, pointed out in Table 7, *supra,* was expended on various general purposes like the improved equipment for elementary education, on the universities, museums and public buildings; it was utilised in the interests of science and art, or for raising the salaries of numerous officials in the service of the State (*v*).

The meaning of "fair return" when applied to State railways is thus a moot point. It may be contended that even a State railway has to charge on an economic basis, covering costs, and leaving a surplus for development (*w*). On the other hand extreme sections argue that transport should be viewed as a service and not as an industry and that, therefore, profit must be an entirely secondary consideration; they urge that transport should be provided for all who need it, and not only for those who have the means to pay for it (*x*). *They compare it with education* where we feel that every citizen should have the privilege of being educated up to a stage whether or not he would freely choose it or whether or not he would be able to pay for its cost.

However, the consensus of expert opinion is, as has been elaborately set forth above, that "fair return" in respect of State railways should mean that

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(*v*) E. A. Pratt, *op. cit.*, p. 47.

(*w*) This is the point of view of the British Labour Party. The Modern Transport, (London), 19-2-1938, p. 4.

(*x*) *Ibid.*

revenues should be sufficient "to defray all charges which are required to be defrayed out of the revenues of the transport system (*y*)". In fact, even in the U.S.S.R. the average freight rate is such that transport is expected not only to pay its operating expenses, but also provide the necessary capital for increasing its capacity, This is a general principle in Soviet Russia in respect of the freight rates, though variations may be introduced to achieve some particular purpose (*z*).

The problem is the same whether the railway is privately or publicly owned. Is the public as traveller or sender of goods to be served at the expense of the same public as tax-payer? This was decided in the negative, in Britain, as early as 1872 by the Railway Committee (*a*). *This view has not changed with the passage of time.* A well-known writer remarked quite recently that in respect of both Company and the State lines they "should be operated with efficiency and should be self-supporting so that other industries are not required to subsidise the transport service (*b*)". That is, the State, in Anglo-Saxon countries at least, has attempted to ensure that, in principle, the cost of transport is borne by the users and not by the general tax-payer (*c*). The

(*y*) Section 3 of The London Passenger Transport Act.

(*z*) K. N. Tverskoi, The United Transport System of the U.S.S.R., (London), Victor Gollancz, 1935, pp. 23.24.

(*a*) Prof. Clapham, *op. cit.*, Vol. II, p. 210.

(*b*) C. E. R. Sherrington, *op. cit.*, Vol. II, pp. 310-311.

(*c*) Report on the Co-ordination of Transport in Kenya, Uganda

view once expressed by Winston Churchill that "railways in private hands must be used for immediate profit, but it might pay the State to run railways at a loss to develop industries and agriculture" is not and cannot be a *permanent* policy.

As far as Indian railways are concerned it was seen that throughout the last century they did not conform to this view of "fair return" in the sense that the public as tax-payer *did pay* to the public as traveller or sender of goods; in the present century also the Indian railway working was against this policy in the other sense that the railways were so worked as to yield a net gain to the tax-payer. The Inchcape Committee observed, "we are of opinion that the country cannot afford to subsidise the railways and that steps should be taken to curtail working expenses as necessary in order to ensure that not only will the railways as a whole be on a self-supporting basis, but that an *adequate return* should be obtained for the large capital expenditure which has been incurred by the State (*d*)". It has been urged that this idea of "adequate return" or "fair return" is not the last word on the subject. Indeed, the latest body of experts who examined this question thought that "the railways, while they should be expected to maintain full solvency, should not be re-

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and the Tanganyika Territory by Brig-Gen. Sir H. Osborne-Mance, 1937, p. 3.

(*d*) Inchcape Report, *op. cit.*, p. 61. *Italics* the writer's.

They recommended that the railways should be so worked as to produce a fixed profit to the State.

garded as a possible source from which contributions to the general revenue might be derived (*e*)".

40. *Self-sufficiency and Taxation.*—Briefly, we arrive at two interesting conclusions from these studies of different systems. In the first place, their fundamental aim is to work them in a manner calculated to aid the State in developing its natural, capital and human resources. In the second place, they have always attempted, with greater or lesser success in different stages in their careers, to be self-supporting. The question then arises: what is the meaning of "self-sufficiency"? Does it mean that railways are to be completely exempt from any financial burden *vis-a-vis* the State? Or does it mean that the railways are to be run economically, efficiently and adequately, without avoiding the payment of legitimate taxes, duties or rates? In regard to this very important question we notice a startling difference among these countries. In Britain, where the railways are company-owned and operated, the railways have been, for many decades, a source of substantial gain to the Government; but, this is so largely in the sphere of local Government. In the United States of America, where also they are the properties of joinst stock companies, the railways have borne considerable tax-burdens—but chiefly in the sphere of State taxation. France has both private and State railways (*f*). And both have been sub-

(*e*) Wedgwood Report, *op. cit.*, p. 129.

(*f*) Since this was written France has completely nationalised railway ownership and operation.

ject to central taxation. Again, the State railways of Prussia were paying local rates, taxes, income-tax, land-tax, house property tax, etc.—the aggregate of which amounted, in 1911, to £.1,214,000 (*g*). It is now clearly recognised in America, for instance, that when a transportation industry is said to be self-supporting or paying its way, it means that in addition to meeting its operating and other expenses like interests on loans, it should "pay its proper share of taxes for the support of the Government" (*h*). It is in this sense that the American railways have been self-supporting. They own their roadway and maintain it. In addition they pay heavy taxes which help to meet the general cost of Government such as for schools, police, etc. (*i*).

What is the economic basis of this taxation, one may well ask. The *quid pro quo* theory of taxation is known to be fallacious. It is the fiscal theory that is current. "Taxation for revenue only" may not be acceptable as wholly correct. But if it is modified to mean "taxation mainly for revenue" it becomes beyond cavil. Further, in all modern societies "revenue mainly from taxation" is also true. Of all the canons of taxation of Adam Smith that of "equality" leading to "faculty to pay" is recognised to be of pivotal importance. Therefore, although both in America and England protests have been

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(*g*) E. A. Pratt, The case against railway nationalisation, p. 48.

(*h*) An Economic Survey of Motor Vehicles Transportation in the U.S.A. (Washington), p. 69.

(*i*) *Ibid.*, p. 70.

made against the rate or amount or basis of taxation of railroads, the *principle* that they are as much liable to be taxed in the interests of the community as a whole (either by Local or Central Government) as any other kinds of income or property has never been contested. In Germany, although the railways have been the property of the State—with the exception of the period when the Dawes Plan and subsequent reparation arrangements were in force—they have had to share the burdens of taxation, but only to a much smaller extent than the British railways. In India, excepting some inconsiderable amount by way of municipal taxation, the State railways have been free from tax-burdens (*j*). Why? The most obvious of the reasons would be that they are State-owned and that a government does not tax itself. Accepting for the moment that this explanation is good and sufficient, we may examine how estimates of the efficiency of Indian railways based on the return on capital invested compared with such returns in other countries will stand when due allowance is made for this factor of taxation. Supposing, the railways of country *A* have, on the average, been yielding a return on capital of say 2 per cent. and those of *B* also have been yielding the same rate; but with the difference that *B's* 2 per cent. is got *after* paying say 1 per cent. by way of rates, duties and taxes, and *A's* is not, then it is manifestly wrong—(without going into the reasons for the existence of this difference) —to say that both are in the same position in regard

(*j*) Infra.

to earning capacity (*k*). If we view the Contribution which the Indian railways were to make to the general revenues of the country according to the Separation Convention of 1924—and which they did make during the six years that followed the Convention—as the Indian counter-part of the taxation imposed in other countries, we find an important difference (*l*). Whereas taxation is a direct charge on railway receipts, (forming part of the expenditure to be deducted from the receipts before the net income is arrived at), the Contribution is payable only out of surpluses. We have seen that in India and abroad Governments and the public are veering round to the view that, subject to vigilant supervision and control ensuring safety, equality, efficiency and economy, the path of wisdom is to run the railways on strictly business principles. Indeed, the Government of India Act of 1935 itself lays down

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(*k*) For instance, this statement in p. 10 of the Wedgwood Report: "Judged by the percentage return on capital the railways of India come very well out of the comparison" with British and American railways.

(*l*) In fact the Contribution was regarded at the time of its birth as a sort of dividend to the State which is the owner of the railways. Sir Charles Innes, Member, Government of India, then said "it is right and proper that the tax-payer, the State, should get a 'fair and stable return' from the money it has spent on its railways". The Finance Member, Sir B. Blackett, said "there is sound reason for asking railways to pay something over and above their expenses and their interest".—The Indian Legislative Assembly Reports, 17—9—1924, p. 3635.

The fair return to State railways is, thus, not the same as that to Company railways.

that it shall be so. The fact that Indian railways have always been practically exempt from a legitimate but substantial charge, which the railways of England, France, America and Germany have been incurring, gives rise to the question whether or not they are State-subsidised and not merely State-owned. If they are, then why try to take back by one hand (as Contribution) what has been given by the other (by exempting from tax)? And, above all, has the attempt been successful? If company railways are to contribute to the public exchequer by way of rates and taxes and State railways by way of a Contribution, then is it the best course to take it out of *surpluses,* thereby giving occasion for a possible interpretation by the country's industries and trades that the railways are not worked on a self-supporting basis and that therefore a justifiable demand for the reduction of rates and fares can be made (*m*)? It may be useful at this stage to study and sketch briefly the position in respect of such taxation in the several countries the evolution and policy of whose railways have been discussed above.

(*m*) "The important question with respect to any transportation industry is whether in fact it pays its own way, and whether in addition it pays its proper share of taxes for the support of the Government".

Bureau of Railway Economics, Washington, Special Series No. 60, p. 69.

CHAPTER IV.

THE TAXATION OF RAILWAYS.

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SECTION 10. THE BASES OF TAXATION OF COMPANY RAILWAYS.

41. *The principle of the Contractor's basis.*—The study of the local rates on railways, which is the principal form which taxation of railways has taken in Britain, falls naturally into three periods (*a*). They are:—

(i) Pre-War period—till 1913.

(ii) Post-War period—till 1931.

(iii) 1931 and after.

During the first period the rating of railways was largely based on the principles enunciated in the Parochial Assessment Act of 1836. The central point which it laid down was that the annual value to a yearly tenant was applicable to all classes of rateable property (*b*). Considering that they were the

(*a*) The unproductive and anachronistic passenger duty was abolished in 1929.

(*b*) Section 1 of the Parochial Assessment Act, 1836, provided that the rate was to be based "upon an estimate of the net annual value of the several hereditaments rated thereunto; that is to say, of the rent at which the same might reasonably be expected to let from year to year, free of all usual tenants' rates and taxes, and tithe commutation rent charge, if any, and deducting therefrom the

pre-amalgamation days, even if each railway system had been valued as a whole, it would have been sufficiently complicated. The position was indeed worse. At different times and on data which were anything but uniform, each local authority made its own estimate of the rental value within its area. The local assessing authority acted on the general principle of the 1836 Act that the rate should be related to the estimated rent that the part of the railway undertaking in that locality would yield if let to an imaginary tenant. Before arriving at this rent deductions were made for what was known as the tenant's share of the profits. Among the items treated as the tenant's capital the most important were the rolling stock, cash required to run the business and the stock of stores; and the profits attributable to these items were to be deducted from the total property before the rental value could be ascertained. In the refreshment rooms, books-stalls, etc., not in the occupation of the railway company, the rent paid by the occupants was taken into account while valuing the station. The Indian Taxation Enquiry Committee remarked, "it is unnecessary to describe the details of the valuation, since the method is based on so many assumptions of hypothetical character that it would be difficult to say that the final results have any pretence to scientific accuracy (*c*)".

probable annual average cost of the repairs, insurance, and other expenses, if any, necessary to maintain them in a state to command such rent."—Law Reports, 1936, Lord Hailsham's address, p. 273.

(*c*) The Report of the Taxation Enquiry Committee, 1924-25, para. 458.

The Scottish and Irish systems were better because there the valuation of the railway as a whole was made by a separate officer. In Scotland the practice was to deduct from the gross revenue of the railway certain sums for working expenses and tenant's allowances; the total value of the railway thus arrived at was distributed among the rating areas proportionately to the "mileage of lines" in each. The only essential change in the Irish system was that there the distribution among the rating areas was according to the number of "train miles" in each. In 1865 The Royal Commission on Railways and in 1901 the Royal Commission on Local Taxation criticised the British system and recommended that each railway in England and Wales must be valued as one and the total apportioned on a just principle among all the rating areas through which the railway passed.

42. *Railways (Valuation for Rating) Act.*—Despite these recommendations, the British railways continued, up till 1930, to be assessed by each individual local authority on what Lord Campbell in 1851 described "as the impossible and nearly absurd supposition that a person may be found who would take the portion of a railway which passes through a single parish, and no more, as a tenant from year to year (*d*)." It was nearly impossible to test whether the assessment committees were correct in their assessments, because that would entail a detailed

(*d*) Wood and Stamp, *op. cit.*, page 165.

and costly investigation of a labyrinth of figures relating to expenses and receipts of parts of the line and a division of the fares and charges in an equally elaborate manner. Quite frequently assessments were levied "nominally". "In some country-parishes the railways were paying a substantial part of the local burden, simply for the privilege of running through (*e*)." It was felt, and quite rightly as later events proved, that if the valuation had been done as a whole and not in this piecemeal fashion it would have been much less than this "sum of assessments".

During the period of the last war and later till 1921 the Government had the charge of railways and there was no substantial change in the method of assessment. The Government did not alter the 1913 valuation except for new properties. The Railways Act of 1921 leading to the establishment of the four amalgamated companies made it quite imperative that a new system must be devised. The National Conference of Assessment Committees was set up so that it may deal with this question of changes in valuation and determine them till Parliament enacted the law creating a new machinery. The position was much simplified by the agreement between all concerned that it was, broadly, in proportion to the rise and fall in net receipts that the annual adjustment of the assessable valuation should be made. Later, this arrangement was carried out by the Central Valuation Committee instead of the National Con-

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(*e*) The Annals, *op. cit.*, September, 1936; Article by Sir Josiah (Lord) Stamp.

ference. The Rating and Valuation Act, 1925, was passed with the object of modifying and simplifying the law relating to the making and collection of rents. It defined in section 22, sub-section (1) (b) the net annual value of a hereditament for the purpose of rating as "the rent at which the hereditament might reasonably be expected to let from year to year if the tenant undertook to pay all usual tenant's rates and taxes and the rent charge, if any, and to bear the cost of repairs and insurance and other expenses, if any, necessary to maintain the hereditament in a state to command the rent."

43. 1931 *and after*.—This system continued to exist till March 31, 1931; on the next day 'the Railways (valuation for rating) Act of 1930 was brought into operation. The new statutory body known as the Railway Assessment Authority was established, and it was entrusted with the duty of making quinquennial valuations of the railways. For the first time in the history of British railways this Act made it possible for their rating to be based on the average net receipts of *the whole undertaking* (*f*). Section 1, sub-section (1) of this Act provides that the provisions of the Rating and Valuation Acts regarding the ascertainment of the values of hereditament shall cease to apply in the case of railway hereditaments in England occupied by a

(*f*) Section 4, sub-section (1) of the Act of 1930 says: "...... Where a railway company's undertaking is carried on in England ....the net annual value of the undertaking as a whole shall.......be determined."

railway company to which the Act applies, and that the values of such hereditaments for rating purposes shall be ascertained as directed by the Act. The method is indicated in section 4, sub-sections (1) and (2) which say that it shall no longer be necessary to give effect to any practice in regard to the allowance to be made in respect of the capital of a tenant, but that regard shall be had "to all relevant circumstances and material considerations with a view to securing that such estimated rent shall represent just and fair division of the net receipts as between landlord and tenant (*g*)."

The composition of this Assessment Authority was such that although ultimate control was in the hands of the British Cabinet (the chairman to be appointed by the Lord Chancellor and the other nine members by the Minister of Health), six out of the ten members were to be appointed on the recommendation of a number of associations intimately connected with various local bodies like County Councils and Municipalities.

Table 19 below will show that the first valuation, which came into force in April, 1931, fixed that of the Southern Railway Company at £. 2,180,000. This was the earliest valuation completed by the Railway Assessment Authority. The Railway Company, however, disputed the entire method of valuation adopted by the Assessment Authority, which

(*g*) The Law Reports of the Incorporated Council of Law Reporting. 1936, p. 270.

was a rather novel method (*h*). The question was taken to the Railway and Canal Commissioners and to the House of Lords, and both decided in favour of the Railway Company, with the result that the valuation of the Southern Railway Company was reduced from £2,180,000 to £1,077,000. Thus, the valuation of the companies was first done by the Assessment Authority, and then legal proceedings followed, and lastly negotiations were instituted; and it was agreed by all concerned that the railway companies were entitled to a refund in respect of their over-payments to the Railway Freight Rebates Fund (*i*). These were in respect of the amounts re-

(*h*) Basing themselves particularly on the direction in the Act that the estimated rent is to "represent a fair and just division of the net receipts", the Railway Assessment Authority contended that the Act has put an end to the old system of calculating the amount of capital required by a tenant for the working of the undertaking and allowing him a percentage thereon, and that it is now necessary to follow some other method. But Their Lordships (Viscount Hailsham and four other Lords) decided that the only custom or practice which the Authority is declared to be at liberty to depart from is a custom or practice "in regard to the deduction or allowance to be made in respect of the capital of a tenant." In the words of the Lord Chancellor "it is thus beyond question that the Legislature contemplates that there will be a deduction or allowance in respect of the tenant's capital, and, having regard to the universal practice which obtained before the Act came into force of making such a deduction or allowance in the shape of a percentage upon the tenant's capital, it is in my opinion clear that the section in no way directs the Authority to depart from this method and to adopt some other method which is left wholly undefined." ......And it was so decided.

The Law Reports, *op. cit.*, p. 281.

(*i*) This Fund was established under the Local Government Act, 1929. Mention was not made of it so far, because it does not directly help or harm the railways. Relief is no doubt given to them in respect of a large portion of their local rates. But the relief does

lating to the period April 1, 1931 to December, 31, 1936. In order to provide for this repayment the Railway Freights Rebate Act, 1936, was passed, and thus the Railway Clearing House was authorised to borrow £ 9,300,000 on the security of the Fund, to discharge the liabilities to the railway companies.

TABLE 19.

(Showing the agreed amounts—with the three companies, the L.M.S.R., L.N.E.R., and G.W.R.—announced by the Railway Assessment Authority, together with the comparable figures.)

NET ANNUAL VALUE.

(In thousands of £.)

	1913	1930	Railways (Valuation for Rating) Act, 1930.		
			Draft valuation Roll.	First valuation 1931-1935.	Second valuation 1936-1941.
L.M.S.R. .	5,934	3,600	5,000	1,750	1,500
L.N.E.R. .	4,701	2,600	3,500	1,100	1,100
G.W.R. ..	3,261	2,300	2,800	1,650	1,400
S.R. ..	2,589	1,840	2,180	1,077 (*j*)	(*k*)
	16,485	10,340	13,480	5,577	

not really inure to them because they are obliged to pay an amount equivalent to this Fund from which rebates of railway freight charges are allowed to certain "selected traffics" like coal, milk and livestock.

(*j*) Settled by appeal to Railway and Canal Commissioners and House of Lords.

(*k*) To be settled between the Railway Assessment Authority and the S.R.

Figures from Railway Gazette, 14-4-1936, p. 262.

TABLE 20.

(Showing the amounts paid by the British Railway companies as taxation, their percentage to gross expenditure, and to capital receipts.)

Year.	Taxes paid.	% of total expenditure.	% of capital receipts.
	£		
1929 ..	5,847,921	3.91	0.52
1930 ..	5,639,211	3.94	0.50
1931 ..	5,388,153	4.04	0.48
1932 ..	5,168,302	4.11	0.46
1933 ..	5,192,409	4.20	0.46
1934 ..	5,128,557	4 03	0.45
1935 ..	4,146,236	3.24	0.36
1936 ..	2,913,662	2.56	0.26

Figures compiled from Ministry of Transport Returns.

(Figures include rate relief allowed to the railway companies under the Local Government Act, 1929, and paid by them into the Railway Freight Rebates Fund.)

44. *Multiplicity of bases in America.*—The history of the development of the taxation of railways in the United States of America is long and chequered. Various experiments were tried. Different bases of assessment were practised in the many States. Apart from the railway taxation, even about taxation in general in America, it has been said that "the welter of taxation in the United States is truly appalling, and any estimate of the combined weight of Federal, State and Local taxes must therefore be subject to a considerable margin of error (*l*)." While

(*l*) The Economic Journal, June, 1938, Article by M. T. Holland.

local rates form the most important form of railroad taxation in Britain, in America it is the State taxation for State purposes that really matters (*m*). Even to-day there is no uniformity among the States in the matter of principles and methods of assessing railway-taxes. Some States tax the railway earnings either gross or net. Some States prefer the system of specific valuation "through the method of stock-and-bond or some modification of the same (*n*)". The following analysis illustrates the half-a-dozen bases on which taxes were assessed at different times at different States (*o*) :—

(i) On the cost of property; this was, for instance, prevalent in New Jersey from 1873, for some years.

(ii) On the capital stock at market value; *e.g.*, in Connecticut between 1849 and 1864.

(iii) On the capital stock plus bonded debt at market value; *e.g.*, in Georgia and Illinois.

(iv) On the business transacted; *e.g.*, in Delaware where the number of locomotives and passengers were taken into consideration; also in Pennsylvania between 1868 and 1874.

(v) On the gross earnings; this is more common than the other bases; *e.g.*, in Maine.

(*m*) There are Local and Federal taxes too; but the State taxation is by far the most important, its incidence being the heaviest.

(*n*) Seligman, E.R.A.—Essays in Taxation, p. 181.

(*o*) *Ibid., op. cit.*, p. 218.

(vi) On the net earnings or income.

Again, it is not all States that "graduate" the earnings tax. Some like Maine do; others do not. Although all the six bases mentioned above are found in the country, by far the most common is the tax based on property, "including the permanent way (*p*)". Such a tax, not based on revenue, is of the nature of a standing charge, *utterly unlike the Indian railway contribution to the general revenues.*

It was noticed that in Britain the recent developments in regard to taxation of railways have been favourable to them; they were contending, for a long time, that they were being over-assessed; and now it has been accepted, consequent on the judgment of the House of Lords in the Southern Railway case, that they were right in so contending. In America, however, the railways have had no such relief; they could not claim that the valuation was erroneous. They could only protest against the rate of taxation. Here are two statements that illustrate how keenly the burden of taxation is felt.

"....Since national statistics of railways were initiated by the Inter-State Commerce Commission in 1888, the freight traffic of the American railways has increased approximately seven times, their passenger traffic three-and-a-half times, and their *taxes nearly fourteen times,* while their capital stock has barely doubled......Taxes have increased almost

(*p*) Road and Rail in Forty Countries—International Chamber of Commerce, Paris, p. 348.

TABLE 21.

(Railway Tax Accruals, Federal and other, cl. i, Steam Railways of the U.S.A).

Year.	Federal taxes (Dollars).	Other taxes (Dollars).	Amount (Dollars).	% of operating expenses.	% of operating revenues.
1920 ..	50,001,370	180,043,963	230,045,333	4.71	4.39
1921 ..	37,278,171	238,597,819	275,875,990	6.05	5.00
1922 ..	51,862,010	249,172,913	301,043,923	6.82	5.41
1923 ..	77,062,824	254,852,635	331,915,459	6.78	5 28
1924 ..	73,368,991	266,967,695	340,336,686	7.55	5.75
1925 ..	86.474,543	272,041,503	358,516,046	7.90	5.86
1926 ..	108,272,087	280,650,769	388,922,856	8.33	6.09
1927 ..	84,591,269	291,518,981	376,110.250	8.22	6.13
1928 ..	87,998,161	301,434,254	389,423,415	8.79	6.37
1929 ..	89,443,677	307,238,957	396,682,634	8.80	6.32
1930 ..	39,918,284	308,635,669	348,553,953	8,87	6.60
1931 ..			303,528,099		7 3
1932 ..			275,135,399		8.8
1933 ..			249,623,190		8.1
1934 ..			239,624,802		7.3
1935 ..			236,944,985		6.9
1936 ..			319,752,721		7.9

Compiled from Inter-State Commerce Commission Reports.

TABLE 22.

(Illustrating the substantial slice of the gross earnings of American Railways that goes to
10 the Government as taxation. Below, the number of days' revenue which is required to meet certain
items of expenditure is indicated.)

Year.	Wages.	Fuel.	Materials and supplies.	Other expenses	Taxes.	Interest.	Dividends.	Balance.
1925	153	24	69	25	21	41	20	12
1926	151	24	69	24	22	40	23	12
1927	155	23	69	25	22	43	24	4
1928	152	21	66	25	23	43	26	10
1929	150	19	66	26	23	43	28	10
1930	157	19	65	29	24	51	20	nil
1935	164	21	55	34	25	66	nil	nil

Quoted by the Railway Gazette (London) 29th January, 1937.

It will be seen that even in the years 1930 and 1935 when the railways were in a bad financial plight nearly 25 days' revenue had anyhow to be paid to the State as taxes. In 1935 there was none for dividends.

twice as fast as dividends, and taxes are guaranteed while dividends are not."

"....Through days of plenty and adversity during 36 years from 1889 to 1925 the taxation of railways has soared upwards from 27,590,394 dollars in 1889 to 366,200,109 dollars in 1925. Assessors may come and go, methods of taxation may change, deficits follow dividends into the pits of receiverships and re-organisations, but the soaking the railways in taxes goes on for ever (*q*)".

Section 11. The practice of levying Transport Tax.

45. *The Taxation of French Railways.*—As in the case of Britain and the United States of America, in France too, the State, representing the whole community, derived from the railways, not only the indirect benefits resulting from reasonably efficient transportation service, but also a direct monetary contribution, year by year, by way of taxation. Until 1933 the transport tax was as high as 32.5 per cent. of the price of the ticket in the case of passengers, and in regard to freight was, apart from certain exemptions, either 5 or 10 per cent. of the rates according to the class of traffic involved (*r*). Then,

(*q*) Bureau of Railway News and Statistics (America). Railway Statistics of the United States of America, 1925, p. 109.

(*r*) This tax on the price of transport dates from the introduction of the Law of March 25, 1817. It was increased in the course of the 19th century.

there were other taxes also like revenue from subscription payments in respect of stamp duty on shares and debentures, income-tax on transferable securities, and premiums on paid off securities (*s*). Complaint against this burden was a hardy annual till in 1933 the railways were granted some relief by the reduction of the transport tax on the passenger fares from 32.5 per cent. to 12 per cent., the level of 1926. Simultaneously, however, the fares themselves were changed so that the charge to the public remained unaltered. Nevertheless, it was a concession to the railway companies of real importance for it increased their annual revenues by over 450 million francs.

Such taxes on transport are common in several of the State and Company railways of the world. They are taxes collected by the railway administrations on behalf of the Government. Italian and German State railways have such taxes. Even Britain, for instance, had a transport tax for many years; in 1842 the Chancellor of the Exchequer agreed to commute the passenger tax of 1/8 penny per mile to a levy of 5 per cent. of the gross receipts of railway companies (*t*). Such taxes may be ignored

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(*s*) The Companies are subject to the land-tax governed by the Laws of March 29, 1924 and August 3, 1926, under Article 63 of the *Cashier des Charges*.........“The amount of the land tax shall be established on the basis of the area of the lands occupied by the railway and its dependencies.......”

Road and Rail in Forty Countries, *op. cit.*, p. 351.

(*t*) H. G. Lewin, Early British Railways, *op. cit.*, p. 118.

here, for they are not quite relevant *to the central point, namely the meaning of "self-sufficiency" and "operating State railways on business and commercial lines"*. Leaving out of consideration all the taxes which are directly recovered from the passenger or the "shipper", and taking into account *only such taxes as are included in the working expenses of the railways*, we find that the French railways (consisting, in the past, of partly State railways and partly company railways) paid, in 1933, 30,943,518 francs making 1.44 per cent. of the working expenses (*u*). The railway companies of France were subject to taxation by the State from the very earliest days (*v*).

46. *The Taxation of Canadian Railways.*—Table 23 below shows how the State as well as the Company railways of the Dominion of Canada have been paying considerable sums to the Government by way of taxation. The amounts shown in column 3 as taxation paid are, it must be remembered, expenditures *which must be deducted* from the annual operating surplus before the "net railway operating income" is calculated, and distribution of interest and the dividends therefrom is decided upon. As in the case of the U.S.A., the Provinces of Canada do not tax the Canadian National Railways on any uniform basis. The Provinces have various Assessment Acts. Generally speaking, it may be said that

(*u*) Bulletin of the International Union of Railways, 1933, p. 168.

(*v*) Lord Monkswell, *op. cit.*, p. 17.

TABLE 23.

Period.	Total operating revenues for the period (dollars).	Total taxation paid in the period (dollars).
1	2	3
	The Canadian National Railways.	
9 years (1921-31 inclusive) ..	2,337,793,994	45,426,397
1934 ..	164,902,502	5,241,858
1935 ..	173,184,502	6,044,176
1936 ..	186,610,489	6,743,147
	The Canadian Pacific Railways.	
9 years (1921-31 inclusive) ..	1,885,803,690	47,980,820

Compiled from Report of the Royal Commission on Canadian Railways 1931, p. 15. And the Annual Report of the Canadian National Railway System, 1936. p. 5

railway property is assessed on a basis similar to the property of other rate-payers (*w*).

47. *The Taxation of German Railways.*—Germany is perhaps *the most outstanding instance of a State that has put into practice the theory that railways are not merely expected to confer upon society the benefits of cheap, efficient and adequate transport but that they should also aid the rulers in implementing any national economic policies* which they may be attempting to put through. Extra-commercial or extra-business considerations like (a) the need for taking in as railwaymen at least a certain proportion of the soldiers who were thrown into unemployment at the time of demobilisation; (b) the absorption of railway refugees from areas ceded to the Allies; (c) the stimulation of exports by specially favourable rates; (d) the undertaking of works involving direct employment, beyond railway requirements from the commercial point of view, and (e) contributions to the general exchequer by means of direct contributions and by means of taxes. Here we shall deal with the last one, namely the taxes which the State levies on railway transport. All traffic on the German railways, including the private railways, (except coal, railway service traffic, and military traffic which are free of tax) has to bear a transport tax varying from 7 per cent. to 16 per cent. and amounting on the lines of the Reichsbahn

(*w*) Bulletin of the International Union of Railways, 1934, p. 36.

to over £.10,800,000 in 1935. In addition to this transport tax, the German State Railways Company, (the Reichsbahn) since its creation in 1924, up till 1932, has had to pay a special annual Reparations Charge. The Treaty of Lausanne concluded in July of that year freed the Company from Reparations burdens; and then a special agreement was concluded according to which the Company was to pay an annual contribution of R.M. 70,000,000 to the Government, "in order to aid the Government in meeting its liabilities (*a*)". The transport tax is included in the tariffs and the income got therefrom is paid into the Treasury. Further, State-owned enterprises, including the Reichsbahn, are obliged to contribute towards the expenses of those municipalities where more than 5 per cent. of the civil population, including their families, are employed in State-owned factories or works. The payments made to the Treasury under this head in 1932, for instance, amounted to R M Five millions (*b*).

SECTION 12. INDIAN STATE RAILWAYS AND TAXATION.

48. *The Theory and the Law under the Indian Acts.*—In countries like Great Britain and the United States of America their company-owned railways have been paying substantial sums every year

(*a*) The Report of the German National Railroad Company, 1932, p. 82.

(*b*) Road and Rail in Forty Countries, *op. cit.*, p. 356.

by way of local taxation. In Germany, where the railways are State-owned they have paid large taxes to the Central Government itself. That is the case in Italy also. India, however, is neither here nor there. They *are* State-owned railways in India; but, unlike the German State railways, they do not pay any considerable Central Taxation. They *were* company-owned railways in the early years; but, unlike the company-owned railways of Britain and the United States of America, they did not pay Local Taxation (*c*). Even in 1936 there were two company railways in India which paid perhaps the highest rates of dividends among the railways in the world, and which did not pay any taxes worth mentioning either to the local bodies or to the Central Government! (*d*). In Spain where railway transportation began almost exactly along the same lines as in India (*e*), the Government used to collect considerable sums from the railways by direct and indirect taxes. Further, it may be argued that the amount which the Indian State railways save on taxation, as compared with the British railways, has to

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(*c*) The trivial sum paid by way of municipal taxation is left out of account; in 1930-31 the Indian railways paid to local bodies and municipalities the rather inconsiderable sum of Rs. 28 lakhs. Mitchell-Kirkness Report, p. 109.

(*d*) The Stock-holders of the Bengal and North Western Railway Company and the Rohilkand and Kumaon Railway Company received for the year 1935-36 a dividend and bonus of 18 per cent. as compared with 16 per cent. for the previous five years!

(*e*) Barring the difference that in India State assistance was in the form of a guarantee of interest and in Spain it was in the form of subventions.

be made good by the Indian tax-payers; therefore, they must put against any savings on their own part in respect of lower rates on their State railways the bigger local rates and taxes they have thus to pay.

The position of Indian railways in respect of taxation is this. The earlier Railway Acts of 1854 and 1875 contained no provision for the taxation of railways by local authorities. In many Provinces municipal taxes were levied, and the legality of such levies was not questioned. Outside the municipal areas, however, no taxes could be levied; because both guaranteed and state railways were specially exempted from the cesses under the Bengal Cess Act of 1880, and a similar exemption was granted in other Provinces (*g*). Exemption from this local cess on land which is practically the only productive tax levied by the local boards has thus meant almost complete relief to the railways from local rating. Even as regards municipal taxation of railway property, which, in a country of an overwhelmingly rural character as India, is bound to be a bagatelle, the Government reserved for themselves tremendous powers under section 135 of the Railway Act of 1890. It runs as follows:—

"(i) A railway administration shall not be liable to pay any tax in aid of the funds of any local authorities unless the Governor-General in Council has by notification in the official gazette declared the railway administration to be liable to pay the tax.

(ii) While the notification of the Governor-General in Council by Clause (i) of this section is in force, the railway administration

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(*g*) The Report of the Indian Taxation Enquiry Committee, 1924-25, p. 459.

shall be liable to pay the local authorities either the tax mentioned in the notification or in lieu thereof such sum, if any, as an officer appointed in this behalf by the Governor-General in Council, may, having regard to all the circumstances of the case, from time to time determine to be fair and reasonable.

(iii) The Governor-General in Council may at any time revoke or reverse a notification under Clause (i) of this section.

(iv) Nothing in this section is to be construed as debarring any railway administration from entering into a contract with any local authority for the supply of water or lighting or for the scavenging of railway premises or for any other service which the local authority may be rendering or be prepared to render within any part of the local area under its control.''

Thus the Government of India retained full and comprehensive rights. The Government could, by refusing to issue a notification under sub-section (1), prevent the imposition of any new tax on a railway by a local body; they could, by cancelling an existing notification under sub-section (3), exempt railway area from the operation of any particular tax, or of all taxes that are being levied. They could further, under sub-section (2), have a fair and reasonable charge substituted for any specific tax (*h*). Each Municipality or Union decided for itself, there being absolutely no uniformity either as regards the nature of the taxes levied or as regards the methods of assessment of separate taxes. However, the amounts paid by the railways were so insignificant that they were not mentioned as a separate item of

(*h*) Report of the Indian Taxation Enquiry Committee, *op. cit.*, para. 459.

expense in the annual Administration Reports of Indian Railways (*i*).

The Government of India Act, 1935, has gone one better and definitely says in section 154:—

"Property vested in His Majesty for purposes of the Government of the Federation shall, save in so far as any Federal Law may otherwise provide, be exempt from all taxes imposed by or by any authority within a Province or Federated State."

"Provided that, until any Federal Law otherwise provides, any property so vested which was immediately before the commencement of Part III of this Act liable, or treated as liable, to any such tax, shall so long as that tax continues, continue to be liable, or to be treated as liable, thereto."

This is the law on the subject. No Province or any local body can derive any revenue from the railways passing through them. The power of the Governor-General in Council to issue notifications under section 135 of the Railway Act of 1890 is gone. The few old taxes of the municipalities continue (*j*).

49. *Raison d' etre of this exemption.*—The position of the tax-payer (whose name is legion, in this land of salt tax, match, kerosene and sugar

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(*i*) An examination of the Annual Reports of the Unions and Municipalities of the Madras Presidency showed that in 1923-24 about 40 municipalities and 50 Unions paid in all to the S.I.Ry., Co., a sum of about Rs. 2 1/4 lakhs.

(*j*) Since these words were written, a Bill was introduced by the Government of India in the Indian Legislative Assembly to restore the position prevailing prior to the 1st April, 1937, enabling the Government of India to issue, vary, or revoke notifications regarding the liability of Federal Railways to taxation by local bodies. It was passed.

duties) is and has been unenviable. In other countries the railway users, in the last analysis, are sharing this burden. Here the taxation which the State Railways avoid falls upon him and he must set that item, among others like comparatively inconvenient railway travel, against his *possibly* lower rates for railway transportation! The Government of India Act taboos the provincial and local taxation of railways; their needs, it is admitted on all hands, are urgent and expanding; their sources of revenue (mainly land tax and excise) are inelastic. Any relief from the Centre is linked up with railway surpluses according to the Otto Niemeyer Award. The Provinces may find this a broken reed; indeed, the Wedgwood Committee go so far as to propose that the railways should make no contribution to the general revenues and that their surpluses should be used for building up certain essential reserve funds. The Government of India find that this would wash out all possibility of the Provinces getting any relief under the Niemeyer Order in Council; therefore, they have not dealt with the surplus of the year 1936-37 (the first since the depression) in the manner recommended by the Wedgwood Committee. However, the position in India is fundamentally different from that in Britain and the United States of America. There the general tax-payer finds that the railways mitigate his burden under any circumstances; the railway taxes are part of the expenses of railway operation, and their payment does not depend on their earning a surplus. Here the "contribution" is paid *only* when the railways have a

surplus. There is little or no justification for this, especially in a country whose taxable capacity is very low and whose need for public expenditure on primary social services (like the provision of protected water supply to several lakhs of villages and the liquidation of the 90 per cent. illiteracy of its people) is crying. When Mr. Sim, the Financial Commissioner of Indian Railways, was examined by the Taxation Enquiry Committee, Sir Percy Thompson, one of the members, made the following significant remarks:—

Question: "You say that it is agreed that the railway administration should make a fair contribution to the municipal expenditure which is intended for the general benefit as distinguished from the benefit to the individual. That was not always the view of the Government of India, was it?"

Answer: (Of Mr. Sim) "No. They previously held that municipal authorities should not tax railways."

Question: "Except for actual direct services?"

Answer: "Yes."

Question: "There is no controversy about that, *i.e.*, the liability to make some fair contribution?"

Answer: "I do not think we can dispute that now. I do not think that it is a sound decision, considering that practically all the railways are State property. My own personal view is that no Government should tax another Government."

Question: "*But in other countries, I think that even Government property pays a rate, the argument being that the locality is prejudiced by the existence of the Government property*".

Answer: "Yes; it can be argued in both ways."

Question: "I am not talking about the contribution for the direct benefits. *The reason why Government is called upon or does, in fact, contribute to these indirect benefits is, they are taking all the room which might be occupied by somebody else who would pay, and the municipalities or the local bodies are consequently prejudiced* (k)."

The words italicised admirably sum up the *raison d'etre* of taxation of *even* State railways. In

(k) The Taxation Enquiry Committee Report, *op. cit.*, Vol. II, pages 564 to 602.

fact, the review of the recent developments in State policy towards the railway industry indicates that the essential objectives of the State-owned systems and company-owned ones are the same. As regards the latter the Government say "Well, we grant that you are entitled to earn such and such amount of revenue; remember that this is a permitted maximum and not a guaranteed minimum; in the meanwhile you must satisfy us that the conditions of work and the wages of the people whom you employ conform to our requirements. Further, we will inspect your accounts and your property and you must satisfy us that everything is according to the detailed rules we have framed in respect of efficiency, economy, safety, equality, *et hoc genus omne*. And lastly *you must pay us such and such amount as rates and duties. After doing all these,* earn if you can up to the maximum we have specified (called Standard Revenue, Fair Return, and so on)." The railways had to accept the position, with as much grace as they could summon, and to make heroic attempts to increase their traffic by improving the quality of the service and to mercilessly apply the pruning knife to all superfluous expense.

Why should the policy of the State railways be different? There is no reason at all, and in many countries it *is not* different. In India also the theory is the same. But the practice is different. Here too the commercial or business aspect has, in recent times, received much emphasis. The Railway Budget has been separated from the General Budget. And

there are also the rules regarding wages, conditions of labour, inspection with a view to ensuring economy and provisions regarding safety and undue preference. Nevertheless, there is a lag in one fundamental matter. Elsewhere they must meet *all* their legitimate charges one of which is taxation. Here "working the railways on business principles" and "making them self-supporting" mean their earning their expenses—one of which is *not* taxation or contribution (*l*). In fact, a former Finance Member of the Government of India stated with reference to the Motor Transport Industry of India that "even when the whole use of motors was for industrial purposes, it would even then be legitimate that that industry should pay some contribution to the General Revenue just as every industry pays in order to help to pay for the services which the public authorities perform—the services of maintaining an orderly administration.....So we could not accept the position that every penny which is raised for motor transport directly or indirectly ought to go to the upkeep of roads". The Indian Road Development Committee clinched the issue with the observation that "whatever theories may be held, it is a fact that the present financial system in India requires various forms of transport to contribute to general revenues, and the exemption of motor transport would not be a practical proposal (*m*)." This is the position which many other countries have taken towards the other branch of the transportation

(*l*) Wedgwood Report, *op. cit.*

(*m*) Report of the Indian Road Development Committee, p. 64.

industry with which we are concerned now, namely, the railways. Curiously enough, as a sop to the tax-payers, who are the owners of the Indian railways, it is also provided that a "contribution" shall be paid when there is a surplus. This is a queer arrangement because in the years when there is a surplus it creates the illusion among railway users that the State is using the railways as a source of relief to the general tax-payer (which forsooth other countries never do!), and that they have a right to demand a reduction in rates and fares. Moreover, comparisons of the efficiency of and the return on capital yielded by the Indian railway system with those of other countries may be made without making any allowance for this fact, and all concerned may be allowed to plume themselves that they emerge unscathed out of such trials (*n*).

(*n*) Wedgwood Report, *op. cit.*, pp. 9, 10.

CHAPTER V.

THE REVOLUTION THAT THE INTERNAL COMBUSTION ENGINE CREATED IN TRANSPORT PROBLEMS: THE INCREASING NEED FOR STATE INTERVENTION.

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SECTION 13. THE ROAD-RAIL PROBLEMS IN BRITAIN.

50. *Road vehicles then and now.*—In a single generation the advent of the internal combustion engine has created a revolution in the inland transport problems of the chief countries of the world. The internal combustion engine may be regarded to have placed a mechanised horse at the disposal of all men for the conveyance of themselves and their goods; and this peculiar feature of this century, of the present generation, in fact, has transformed the social and economic life of the countries in a manner undreamt of by the Victorians.

The effective radius of activity of the road vehicles was restricted to the distance over which a horse, the chief power of traction of those days, could make the return journey in one day. The internal combustion engine released the road car-

riers from the limitation and to-day the radius of their activity is the whole country (*a*). Add to this advantage the following factors, and we get an explanation of the strides made by the road vehicles:—

(i) The provision of new and better road surfaces.

(ii) The sale, immediately after the War, of a large number of army lorries.

(iii) The almost universal use of pneumatic tyres.

(iv) The improvement in the technique of the construction of and in the reliability of new vehicles, and the steady diminution in their prices.

(v) The fall in the cost of motor fuel.

(vi) The construction of new arterial roads and by-passes and the widening of old roads (*b*).

Every technical improvement in the internal cumbustion engine, and its fuel, brought in its wake the following results:—

(a) The reduction of the cost of working the road vehicles.

(*a*) For many years after the British railways were built the average speed of road conveyance was not much greater than 6 or 7 m.p.h. and its normal range seldom exceeded 10 miles. Road traffic was, throughout these many decades, essentially local in character and complementary to and not competitive with, rail transport.

The Times, (London), *op. cit.,* dated, 16-5-1932.

(*b*) A full account of these factors is given in the Memorandum from the British Road Federation to the Transport Advisory Council, March, 1937.

(b) The increase in the radius of their activity.

(c) The widening of the range of the traffics they could handle.

(d) Very upsetting effects on the theory and practice of railway rates.

(d) is the consequence of the other three and we shall deal with it first.

51. *Effect on railway rates.*—So long as the motive power for road traction was supplied mainly by the horse, the railways had a virtual monopoly of inland traffic, because the competition of the inland waterways was more potential than actual. Under such circumstances the railway rates were framed on the theory of joint costs. We may divide the costs of a transport concern into these groups:—

(a) Fixed operating charges which are independent of the volume of traffic, *e.g.*, upkeep of permanent way and stations, general management.

(b) Running costs which vary directly with the traffic carried, *e.g.*, fuel.

(c) Interest and profit on capital at such a rate as would be sufficient inducement to draw further capital required to meet necessary extensions and improvements.

During the period when the railways were a monopoly, they acted on the principle that any traffic, provided it covered the relatively low costs it in-

volved, and makes any contribution towards the fixed charges, no matter how small, was preferable to not carrying the traffic at all (*c*). Thus an elaborate classification of different kinds of goods was made with a view to charge each class according to the principle of "what the traffic will bear", or "the *value* of service".—And *not*, as will generally happen under competitive conditions, on the basis of "*cost* of service". Traffics of much weight and bulk in relation to their value could make only a small contribution towards fixed charges; otherwise they would not come to the railway; while traffics of high value in relation to their weight and bulk could pay much higher charges. It was their logic that if the high-grade traffics were charged less and thereby their contribution to the fixed charges became less, then it would lead to charging the low-grade traffics more than what the "traffic could bear" (or "the value of the service" rendered). They would then disappear; and, since there would not be even the wee bit of a contribution to the fixed charges from the low-grade traffics, the charges on the high-grade would have to be increased. It was argued that it was diamond clear that the maintenance of the classification system and the principle of "what the traffic could bear" were in the interests of all concerned.

The bottom out of all these was nearly knocked out by the advent of motor road hauliers. Competi-

(*c*) This is clearly seen in the practice of "agreed charges"; vide, *infra*.

tion *among* them was so intense that their charges approximated to the "*cost* of service"—regardless of the *value* of the traffic in relation to bulk and weight. The result of the conflict between the railway method of charging according to the "value of the service rendered", which could work with a fair degree of smoothness only under conditions of monopoly, and the road method of charging according to the "cost of service", was that all traffics which could "bear" more than their cost of transport, gravitated to the road hauliers. And naturally the cry went forth that the road carriers were "skimming the cream" of the traffic. Efforts were made to meet this situation by granting "exceptional rates" on such a scale that it has now become exceptional for the "standard rates" to be charged (*d*). Later, under the Road and Rail Traffic Act, 1933, the system of "agreed" charges was brought into use. Neither has completely solved the problem, and before examining the other ways in which the Government of Great Britain sought to meet this situation, it may be well to discuss the economic characteristics of road transport.

52. *Features of Road Haulage.*—It was exactly during those fifteen years after the War when the road transport industry was growing by leaps and bounds in Britain that there was the greatest competition within that industry from rival operators. Second-hand lorries were available. New ones could be had on easy hire-purchase terms. No

(*d*) Section 32 of the Railways Act of 1921.

great technical skill was necessary. It led to two results: the consumer gained because of the steady reduction in rates; almost every economy in operating costs got quickly transferred to him. The second and the evil result was that there was a strong temptation to keep on operating bad vehicles, to put in excessively long hours at the wheel, to sweat the labourers employed, and so on. And the British Road Federation agree that the temptation proved too strong for some road hauliers (*e*).

53. *The ancillary user.*—Another feature of the road motor transport is that it lends itself to its purchaser providing it himself, especially when he has a fairly large volume of traffic to be moved. He has certain advantages to gain by this. For instance his vehicles will serve also as a media of advertisement for him. The public haulier is therefore up against this problem of the ancillary user; and the only effective solution that he has is to quote rates which will be lower than the ancillary user's cost of running his own vehicles. This is possible only when he makes the fullest use of the law of increasing returns.

In order to meet this growing competition the British railways tried to improve their services, to quote cheaper rates, to themselves "get on the road", and lastly to agitate for Government regulation of road transport. As regards the first: the railways saved time by replacing their horse teams

(*e*) The Memorandum of the British Road Federation to the Transport Advisory Council, paras. 3 and 4 under A.

by motor-lorries and by extending the areas of collection and delivery. Special wagons were constructed to transport milk and to prevent its diversion to the road transport. They improved their container services and popularised them among the traders.

It was only in 1928 that the railway companies were authorised to engage themselves in road transport (*f*). And since then they have displayed almost feverish activity in acquiring existing road transport undertakings or at least a substantial interest in them (*g*).

SECTION 14. THE ATTEMPTS OF THE BRITISH STATE TO SOLVE THESE PROBLEMS.

54. *The Road Traffic Act*, 1930.—The Royal Commission on Transport (1929) examined all the interests concerned, recommended various steps to be taken by the railways to give up being "unduly conservative (*h*)", suggested methods for regulating the taxation and the licensing of motor vehicles (*i*), and gave the profound *obiter dictum* (*j*): "Road

(*f*) The Railway (Road Transport) Act, 1928.

(*g*) At the end of 1936 the amount invested by the British Railway Companies in other road transport undertakings was £13,208,654 as compared with £12,172,392 at the end of 1935.

Ministry of Transport Returns, 1936, p. 3.

(*h*) Final Report of the Royal Commision on Transport, pp. 131-160..

(*i*) *Ibid.*, paras. 248, 255 and 333 to 345.

(*j*) *Ibid.*, para. 130.

competition must, of course, continue to affect the railways adversely. The advantages of cheap and comfortable road transport are so great that the public, now that it has become accustomed to them, is not likely to give them up—nor is there any reason why it should. Similarly, the conveyance of certain classes of goods direct from door to door is so advantageous that the railways are bound to lose permanently to the road a certain amount of traffic.''

True to the typical British tradition of muddling through, the Government proceeded, step by step, to hold the scales even, as far as practicable, between road and rail (*k*). In 1930 the Road Traffic Act was passed, mainly with a view to organise the road transport system in the interests of the safety and convenience of the public. Such things as the proper weight dimensions, and speed of the vehicles, and the working hours of the drivers have all been prescribed in this Act. It provided for compulsory insurance against third-party risks. Area Traffic Commissioners were made responsible for conducting inspection of road motor vehicles. It was an Act of 120 sections with 5 schedules; and did not touch the core of the problem, namely, the proper co-ordination of road and rail services.

55. *Road and Rail Traffic Act,* 1933.—The recommendations of the Conference on Rail and Road

(*k*) Mr. Winston Churchill's statement in the House of Commons on April 24, 1928:—''It is the duty of the State to hold the balance between road and rail.'' That perhaps is the quintessence of all recent government regulations in Britain in this matter.

Transport led to the passing of the Road and Rail Traffic Act 1933 (*l*). Throughout their deliberations and report their object was the "ultimate establishment of a fair basis of competition" such as will tend to secure a "better division of function" between goods transport by rail and road respectively.

The Act of 1933 is divided into three parts. Part I deals with motor-car licenses. With the Chairman of the Traffic Commission in each of the areas created in 1930 is vested the right of issuing this licence. The *A* licence is the public carrier's licence, valid for two years and to be obtained by carriers transporting goods for others; the *B* licence is valid only for one year and applies to vehicles used either for owner's business or for reward or hire. And the *C* which is valid for three years applies to the ancillary users.

Part II deals with the "agreed charges"—special rates which the railways can quote to any trader, after the approval of the Rates Tribunal. This is an excellent arrangement by which the railway company and the user come to an understanding that the latter would forward the whole of his traffic by railway and the former would therefore charge substantially less than the Standard Charges. This agreement becomes valid as soon as the Railway Rates Tribunal approves it. To give a specific instance:—

In March 1938 the four Amalgamated Companies applied to the Railway Rates Tribunal for the approval of a charge agreed with

(*l*) Sir Arthur Salter presided over this Conference.

the British Broadcasting Corporation for the carriage of periodicals from Park Royal and 12 other goods stations in London to all goods stations and depots in Great Britain. The charge which they were asked to approve was £1-6-6 per ton, subject to the usual 28 lbs. minimum. This charge was substantially less than the Standard Charges; but the Tribunal was satisfied, from the evidence, that if this charge had not been agreed very little of this traffic would, in fact, have passed by railway; the evidence was that only 2 per cent. would have passed by railway and consequently the revenue of the Railway Companies would have been materially worse if this charge were not made. Further, according to the agreement the Railway Companies were involved in an additional expenditure in connection with the cartage of the traffic which absorbed about 10 per cent. of the receipts from the traffic. The Tribunal decided thus:—"The Railway Companies are better off by carrying the traffic at the charge which has been agreed than they would have been had they lost the traffic or carried only the very small percentage that was mentioned. We approve the charge of £1-6-6 per ton." By condition number 1 the Trader undertook to hand to the companies the whole of the traffic (*m*).

Further, this part empowered the railways to introduce any "exceptional" rate which should not be more than 40 per cent. below the standard rate, without the previous approval of the Rates Tribunal.

A Transport Advisory Council was created by the provisions in Part III of the Act—a Council representative of all the important means of transport and the Government (*n*).

Summing up, *the British public opinion, it would appear, prefers the slow and evolutionary process of equalisation of the conditions of competition be-*

(*m*) Proceedings of the Railway Rates Tribunal, 21-3-1938, year 1938, No. 9, p. 127.

(*n*) Section 46 of the Road and Rail Traffic Act, 1933.

tween the road and the rail—leaving inevitable natural inequalities to continue, so that the trader may always have the freedom to choose that transport agency which suits him. How thoroughly characteristic of the traditions and genius of the conservative but realistic British race!

56. *No perfect co-ordination yet.*—The passing of the Road and Rail Traffic Act did not, of course, bring about the much-needed co-ordination. Three years after the Act, on the 7th of September 1936, when the four Main Line Railway Companies submitted a memorandum to the Transport Advisory Council they mentioned that the competition between them and the road hauliers was still on an unequal basis. The gravamen of their charge was laid in this manner. "At present traffic is diverted from the railways by competitors who have full knowledge of the rates quoted by the railways, whilst their own rates are, or can be, veiled in secrecy. In the same way, road hauliers are in a position to carry at any rates that suit their interests at the moment without any obligations, such as are incumbent on the railways, to extend their favour to other traders forwarding in similar circumstances.......The acceptance of the obligations of publicity and non-discrimination is, in the opinion of the railway companies, a step essential to the building up of any stable and equitable system of co-ordination (*o*)." There is now

(*o*) Memorandum of the Four Main Line Companies to the Transport Advisory Council, 7th September, 1936.

no legislative enactment in Britain enforcing on road hauliers the obligations to publish their rates or conditions of carriage. Although the system of licensing has prevented the coming in of new entrants, thereby establishing a kind of monopoly in the road haulage industry also, there has been no stabilisation of conditions within, or an agreed system of road rates. Another very important question is the regulation of wages in the motor road transport industry. It was with the object of achieving this that the "National Conciliation Board" was set up in 1934. It met with some legal difficulties and in July 1936 a Committee under the chairmanship of Sir James Baillie was appointed to examine the position in respect of wages and conditions of service (*p*). Its report was published in May 1937 and the Transport Advisory Council has accepted its main trends, and legislation along those lines may be expected in the future (*q*). That would mark a real advance because co-ordination is bound to be unsubstantial, if not unreal, without it.

The objective that the Transport Advisory Council kept in mind before formulating their latest proposals to the Ministry of Transport is stated thus:—"It is our view that any attempt to dictate services and to endeavour to decide that certain goods should go by certain forms of transport would be impracticable, and would certainly not be tolerat-

(*p*) Largely due to the statutory powers under the Act proving insufficient to secure universal acceptance of agreed wage levels.

(*q*) Report of the Transport Advisory Council, *op. cit.*, p. 3.

ed by public opinion. We hold that all forms of transport should, where practicable, be rate-controlled, with publication and non-discrimination, in order to ensure a fair basis of competition, and we proceeded on the assumption that, if the rates are stabilised within each form of transport and voluntary agreements are then concluded between the various forms of transport, the greatest possible degree of co-ordination will be secured, since each form of transport will tend to carry those traffics to which it is best suited". This is the kind of arrangement that suits the genius and traditions of the British race, and this is perhaps the view of the circles that really count in British politics to-day. Future legislation may therefore be expected to attempt to secure this end. It was the recommendation of the Road and Rail Sub-Committee of the Council that in each Traffic Area Statutory Area Rates Committees consisting of the road haulage industry must be set up. These Committees should agree rates for their own areas. Further, Area Rates Officers are to be appointed by the Minister of Transport whose business it should be to approve, with or without modification, the schedules of agreed rates submitted by the Rates Committees in their area. They finally recommended the setting up of a Road Rates Tribunal for the whole country, consisting of a representative of the road industry, one of the traders and an independent chairman. The Tribunal will deal with matters affecting more than one area, where the Area Rates Committees have been unable to reach agreement; and it will hear appeals from the deci-

sions of Area Rates Officers; its decisions on matters of rates, charges and conditions of carriage will be final (*r*).

It is on the above lines and with the intention of securing the stabilisation of conditions of rates, services and wages within the road industry that legislation has been recommended. The expectation is that if all conditions within each of the alternative forms of transport are regularised, then voluntary conferences held among these competitors will bring about some measure of agreement and "division of functions" among them. The Britisher has not yet lost faith in enlightened self-interest, and State intervention only if unavoidable. Legislation has not yet been mooted and the wisdom and adequacy of this policy remain to be seen. In the meanwhile critics are not wanting, and three of the members of the Council itself have expressed their dissent from these conclusions on the ground that they do not solve the problem of the co-ordination of Transport Services, but are primarily designed for rate-fixing (*s*). In their opinion national ownership of the means of public transport offers the only real solution of the problem.

(*r*) Report of the Transport Advisory Council, *op. cit.*, 1937, p. 2.

Surprisingly enough, even after two years' experience of the working of the Road and Rail Traffic Act, there had not emerged a scheme whereby small operators could amalgamate their capital and resources by forming themselves into limited liability companies. Surely, such combinations, among individual road hauliers, would be one of the first movements towards co-ordination.

(*s*) The three members are Messrs. Bevin, Marchbank and Spence.